Highland Capital Management, L.P.
(A Delaware Limited Partnership)
Supplemental Consolidating Statement of Income
Year Ended December 31, 2018

(in thousands)	Highland Capital Management, L.P.	All Other Consolidated Entities	Eliminations	Total Consolidated
Revenue:				
Management fees	$ 35,264	$ 1,336	$ -	$ 36,600
Interest and investment income	4,857	10,974	-	15,831
Incentive fees	17	53	-	70
Shared services fees	9,187	-	-	9,187
Other income	1,038	1,584	-	2,622
Total revenue	50,363	13,947	-	64,310
Expenses:				
Compensation and benefits	33,670	805	-	34,475
Professional fees	14,624	3,055	-	17,679
Interest expense	1,695	3,975	-	5,670
Marketing and advertising expense	2,413	-	-	2,413
Depreciation and amortization	1,304	13	-	1,317
Investment and research consulting	1,082	-	-	1,082
Bad debt expense	7,862	-	-	7,862
Other operating expenses	6,786	3,241	-	10,027
Total expenses	69,436	11,089	-	80,525
Other Income/(Expense):				
Other income	9,816	10	-	9,826
Impairment on intangible assets	(2,830)	-	-	(2,830)
Total other income	6,986	10	-	6,996
Income/(loss) before investment and derivative activities	(12,087)	2,868	-	(9,219)
Realized and unrealized gain/(loss) on investments and derivatives:				
Net realized gain/(loss) on investments and derivatives	13,397	(44,914)	-	(31,517)
Net change in unrealized loss on investments and derivatives	(406)	(93,349)	-	(93,755)
Net realized and unrealized loss on investments and derivatives	12,991	(138,263)	-	(125,272)
Net unrealized losses from equity method investees	(74,082)	-	74,082	-
Net loss	(73,178)	(135,395)	74,082	(134,491)
Net loss attributable to non-controlling interest	-	(61,313)	-	(61,313)
Net loss attributable to Highland Capital Management, L.P.	$ (73,178)	$ (74,082)	$ 74,082	$ (73,178)

Highland Capital Management, L.P.
(A Delaware Limited Partnership)
Supplemental Unconsolidated Balance Sheet
December 31, 2018

(in thousands)

Assets		
Current assets:		
Cash and cash equivalents	$	2,567
Investments at fair value (cost $263,008*)		259,460
Equity method investees		24,415
Management and incentive fees receivable		2,242
Intangible assets		8,421
Notes and other amounts due from affiliates		176,963
Fixed assets and leasehold improvements, net of accumulated depreciation of $11,177		4,538
Total assets	$	478,606
Liabilities and partners' capital		
Liabilities		
Accounts payable	$	4,838
Due to affiliate		4,542
Due to brokers		31,194
Due to brokers for securities purchased not yet settled		1,640
Accrued and other liabilities		35,574
Notes payable		16,722
Investment liabilities		12,135
Total liabilities		106,645
Partners' capital		371,961
Total liabilities and partners' capital	$	478,606

*Investments, at fair value includes $97.5 million of limited partnership interest ownership of Consolidated Investment Funds, which are discussed in Footnote 2. These entities are consolidated because the Partnership controls the general partner of the respective entities and is responsible for the daily operations of the entities.

The above information was derived from the audited December 31, 2018 consolidated financial statements of Highland Capital Management, L.P. This information should be read in conjunction with such audited financial statements.

Highland Capital Management, L.P.
(A Delaware Limited Partnership)
Supplemental Unconsolidated Statement of Income
Year Ended December 31, 2018

(in thousands)

Revenue:	
Management fees	$ 35,264
Incentive fees	17
Shared services fees	9,187
Interest and investment income	4,857
Miscellaneous income	1,038
Total revenue	50,363
Expenses:	
Compensation and benefits	33,670
Professional fees	14,624
Marketing and advertising expense	2,413
Interest expense	1,695
Depreciation and amortization	1,304
Investment and research consulting	1,082
Bad debt expense	7,862
Other operating expenses	6,786
Total expenses	69,436
Other Income/(Expense):	
Other income	9,816
Impairment on intangible assets	(2,830)
Total other income	6,986
Loss before investment activities	(12,087)
Realized and unrealized gains/losses on investments:	
Net realized gain on sale of investments	13,397
Net change in unrealized loss on investments*	(56,529)
Total realized and unrealized loss on investments	(43,132)
Loss from equity method investees:	(17,959)
Net loss	$ (73,178)

*Net change in unrealized gain on investments includes $56.1 million of unrealized loss from holdings of limited partnership interests of Consolidated Investment Funds, which are discussed in Footnote 2. These entities are consolidated because the Partnership controls the general partner of the respective entities and is responsible for the daily operations of the entities.

The above information was derived from the audited December 31, 2018 consolidated financial statements of Highland Capital Management, L.P. This information should be read in conjunction with such audited consolidated financial statements.

EXHIBIT 35

HIGHLAND CAPITAL MANAGEMENT FUND ADVISORS, L.P.

INCUMBENCY CERTIFICATE

I am the sole Director of STRAND ADVISORS XVI, INC., a Delaware corporation (the "***General Partner***"), the general partner of **HIGHLAND CAPITAL MANAGEMENT FUND ADVISORS, L.P.**, a Delaware limited partnership (the "***Partnership***"). In that capacity, I certify that the persons listed below have been duly appointed and qualified as, and currently are, officers of the General Partner of the Partnership. I also certify that each person listed below holds the position that is listed opposite his or her name in the General Partner, and that the signatures attached are the genuine signatures of the persons indicated. I also certify that in their capacity as officers of the General Partner, the persons listed below are authorized to execute any and all agreements on behalf of the General Partner in its capacity as the general partner of the Partnership. I further certify that in their capacity as officers of the General Partner, the persons listed below are authorized to give any party on behalf of the Partnership all notices, orders, directions, or instructions (including but not limited to written, facsimile, or oral funds transfer instructions) in connection with any transaction to which the Partnership is or in the future may be a party to in any capacity.

Name of Officer	Title	Signature
Dustin Norris	Executive Vice President	
Frank Waterhouse	Treasurer	
Lauren Thedford	Secretary	

WITNESS my hand to be effective as of the 11th day of April, 2019.

HIGHLAND CAPITAL MANAGEMENT FUND ADVISORS, L.P.

By: Strand Advisors XVI, Inc., its general partner

By: ______________________________
James D. Dondero, Sole Director

EXHIBIT 36

From: Frank Waterhouse <FWaterhouse@HighlandCapital.com>
Sent: Tuesday, October 6, 2020 6:19 PM
To: Lauren Thedford <LThedford@HighlandCapital.com>; David Klos <DKlos@HighlandCapital.com>; Kristin Hendrix <KHendrix@HighlandCapital.com>
Cc: Thomas Surgent <TSurgent@HighlandCapital.com>; Jason Post <JPost@HighlandCapital.com>; Dustin Norris <DNorris@NexPointSecurities.com>; Will Mabry <WMabry@HighlandCapital.com>
Subject: RE: 15(c) Follow up (10_2_20).DOCX

No shared services outstanding. The HCMFA note is a demand note. The NexPoint note Kristin can give the end term. There was an agreement between HCMLP and HCMFA the earliest they could demand is May 2021. The attorneys think that BK doesn't change that but don't know for sure at the end of the day. The response should include as I covered in the Board meeting that both entities have the full faith and backing from Jim Dondero and to my knowledge that hasn't changed.

From: Lauren Thedford <LThedford@HighlandCapital.com>
Sent: Tuesday, October 6, 2020 6:14 PM
To: Frank Waterhouse <FWaterhouse@HighlandCapital.com>; David Klos <DKlos@HighlandCapital.com>; Kristin Hendrix <KHendrix@HighlandCapital.com>
Cc: Thomas Surgent <TSurgent@HighlandCapital.com>; Jason Post <JPost@HighlandCapital.com>; Dustin Norris <DNorris@NexPointSecurities.com>; Will Mabry <WMabry@HighlandCapital.com>
Subject: RE: 15(c) Follow up (10_2_20).DOCX

I see the below from the 6/30 financials –

NPA: Due to HCMLP and affiliates as of June 30, 2020 - 23,683,000
HCMFA: Due to HCMLP as of June 30, 2020 - 12,286

I expect the follow-up question will be regarding terms and structure of the notes and whether any of the shared services invoices are outstanding.

Draft answer below.

> Are there any material outstanding amounts currently payable or due in the future (*e.g.*, notes) to HCMLP by HCMFA or NexPoint Advisors or any other affiliate that provide services to the Funds?
>
> **Response**: As of June 30, 2020, $23,683,000 remains outstanding to HCMLP and its affiliates from NexPoint and $12,286,000 remains outstanding to HCMLP from HCMFA. The Notes between HCMLP and NexPoint come due on [DATE]. The Notes between HCMLP and HCMFA come due on [DATE]. All amounts owed by each of NexPoint and HCMFA pursuant to the shared services arrangement with HCMLP have been paid as of [DATE].

From: Frank Waterhouse <FWaterhouse@HighlandCapital.com>
Sent: Tuesday, October 6, 2020 6:05 PM
To: Lauren Thedford <LThedford@HighlandCapital.com>; David Klos <DKlos@HighlandCapital.com>; Kristin Hendrix <KHendrix@HighlandCapital.com>
Cc: Thomas Surgent <TSurgent@HighlandCapital.com>; Jason Post <JPost@HighlandCapital.com>; Dustin Norris

<DNorris@NexPointSecurities.com>; Will Mabry <WMabry@HighlandCapital.com>
Subject: RE: 15(c) Follow up (10_2_20).DOCX

It's on the balance sheet that was provided to the board as part of the 15c materials.

From: Lauren Thedford <LThedford@HighlandCapital.com>
Sent: Tuesday, October 6, 2020 6:04 PM
To: Frank Waterhouse <FWaterhouse@HighlandCapital.com>; David Klos <DKlos@HighlandCapital.com>; Kristin Hendrix <KHendrix@HighlandCapital.com>
Cc: Thomas Surgent <TSurgent@HighlandCapital.com>; Jason Post <JPost@HighlandCapital.com>; Dustin Norris <DNorris@NexPointSecurities.com>; Will Mabry <WMabry@HighlandCapital.com>
Subject: RE: 15(c) Follow up (10_2_20).DOCX

Could you provide the amounts?

Thanks

From: Frank Waterhouse <FWaterhouse@HighlandCapital.com>
Sent: Tuesday, October 6, 2020 5:53 PM
To: Lauren Thedford <LThedford@HighlandCapital.com>; David Klos <DKlos@HighlandCapital.com>; Kristin Hendrix <KHendrix@HighlandCapital.com>
Cc: Thomas Surgent <TSurgent@HighlandCapital.com>; Jason Post <JPost@HighlandCapital.com>; Dustin Norris <DNorris@NexPointSecurities.com>; Will Mabry <WMabry@HighlandCapital.com>
Subject: RE: 15(c) Follow up (10_2_20).DOCX

Yes

From: Lauren Thedford <LThedford@HighlandCapital.com>
Sent: Tuesday, October 6, 2020 5:52 PM
To: Frank Waterhouse <FWaterhouse@HighlandCapital.com>; David Klos <DKlos@HighlandCapital.com>; Kristin Hendrix <KHendrix@HighlandCapital.com>
Cc: Thomas Surgent <TSurgent@HighlandCapital.com>; Jason Post <JPost@HighlandCapital.com>; Dustin Norris <DNorris@NexPointSecurities.com>; Will Mabry <WMabry@HighlandCapital.com>
Subject: RE: 15(c) Follow up (10_2_20).DOCX

Good evening Frank, Klos, Kristin – please advise on the below in connection with the Board's follow-up request. Thanks!

> Are there any material outstanding amounts currently payable or due in the future (*e.g.*, notes) to HLCMLP by HCMFA or NexPoint Advisors or any other affiliate that provide services to the Funds?

From: Lauren Thedford
Sent: Friday, October 2, 2020 2:50 PM
To: Thomas Surgent <TSurgent@HighlandCapital.com>
Cc: Jason Post <JPost@HighlandCapital.com>; Dustin Norris <DNorris@Nexpointsecurities.com>; Will Mabry <WMabry@HighlandCapital.com>; David Klos <DKlos@HighlandCapital.com>
Subject: FW: 15(c) Follow up (10_2_20).DOCX

Thomas – please see attached (and reproduced below) additional 15c follow-up questions from the Board.

1. Please provide, to the extent practicable, the contingency plans with respect to the services provided under the Shared Services Agreements in the event that the outcome of the HCMLP bankruptcy proceedings were to impact the current servicing structure. For example, has the Advisers considered any outside service providers if necessary?

    Note prior question and response on related topic:

    With respect to the Estimated Adviser Profitability chart (Item A.2.a in the Board book), is the "Shared Services" line the only expenses attributable to HCMLP? Has any work been done or consideration been given to the solicitation of a third party bid on performing these services or bringing them in house to HCMFA?

    Response: Shared services, along with a portion of the investment professional compensation & benefits lines, are the only allocations attributable to HCMLP employees' support of the Advisers. HCMFA does not have the resources to bring these services in-house at this time, but given that HCMLP staffing levels for the provision of the shared services have remained fairly consistent and HCMLP remains capable of providing such shared services on economically reasonable terms, outsourced third-party bids have not been solicited at this time.

2. Are there any material outstanding amounts currently payable or due in the future (*e.g.*, notes) to HLCMLP by HCMFA or NexPoint Advisors or any other affiliate that provide services to the Funds?

3. The Board notes the provision of the updated list of current co-investments provided by HCMFA/NexPoint Advisors and the Advisers' discussion, including the senior-level team in place, to address any potential conflicts of interest matters. With respect to the compliance function, please confirm that the Funds' Chief Compliance Officer overall will continue in his usual role with respect to the Funds. Are there any other potential conflicts outside of the specific co-investment matters identified?

Please let me know if you would like me to set up a call on Monday to discuss.

From: Louizos, Stacy <SLouizos@BlankRome.com>
Sent: Friday, October 2, 2020 1:54 PM
To: Dustin Norris <DNorris@NexPointSecurities.com>; Lauren Thedford <LThedford@HighlandCapital.com>
Cc: Jason Post <JPost@HighlandCapital.com>; Zornada, George <George.Zornada@klgates.com>; Charles.Miller@klgates.com; Jon-Luc.Dupuy@klgates.com
Subject: 15(c) Follow up (10_2_20).DOCX

Hi Dustin and Lauren—Please see attached follow up questions from the Trustees after the latest Board call. Happy to have a call to discuss if helpful.

Best,
Stacy

Stacy H. Louizos | BLANKROME
1271 Avenue of the Americas | New York, NY 10020
O: 212.885.5147 | F: 917.332.3028 | slouizos@blankrome.com
M: 203.918.3666

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*

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*

EXHIBIT 37

NEXPOINT ADVISORS, L.P.

INCUMBENCY CERTIFICATE

I am the President of NEXPOINT ADVISORS GP, LLC, a Delaware limited liability company (the "***General Partner***"), the general partner of **NEXPOINT ADVISORS, L.P.**, a Delaware limited partnership (the "***Partnership***"). In that capacity, I certify that the persons listed below have been duly appointed and qualified as, and currently are, officers of the General Partner of the Partnership. I also certify that each person listed below holds the position that is listed opposite his or her name in the General Partner, and that the signatures attached are the genuine signatures of the persons indicated. I also certify that in their capacity as officers of the General Partner, the persons listed below are authorized to execute any and all agreements on behalf of the General Partner in its capacity as the general partner of the Partnership. I also certify that in their capacity as officers of the General Partner, the persons listed below are authorized to give any party on behalf of the Partnership all notices, orders, directions, or instructions (including but not limited to written, facsimile, or oral funds transfer instructions) in connection with any transaction to which the Partnership is or in the future may be a party to in any capacity.

Name of Officer	Title	Signature
James Dondero	President	
Dustin Norris	Executive Vice President	
Frank Waterhouse	Treasurer	
Lauren Thedford	Secretary	

WITNESS my hand to be effective as of the 11th day of April, 2019.

NEXPOINT ADVISORS, L.P.

By: NexPoint Advisors GP, LLC, its general partner

By: ____________________________
James Dondero, President

EXHIBIT 38

Cash payment history after 12/31/2018 - Other Notes subject to the Alleged Agreement

HCRE

		"HCRE Restructure note"		November 27, 2013 Note		October 12, 2017 Note		October 15, 2018 Note		September 25, 2019 Note		
Date	Cash receipt amount	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total Received in respect of notes
9/30/2019	$ 341,758	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 204,733	$ 986	$ 205,719
12/30/2019	477,482	201,994	275,487	-	-	-	-	-	-	-	-	477,482
1/21/2021	665,811	30,542	$ 301,847	171,452	2,067	-	69,730	-	18,794	-	71,380	665,811
Total	**$ 1,485,051**	**$ 232,537**	**$ 577,334**	**$ 171,452**	**$ 2,067**	**$ -**	**$ 69,730**	**$ -**	**$ 18,794**	**$ 204,733**	**$ 72,366**	**$ 1,349,012**

* Difference between cash receipt and total received in respect of the notes of $136,039 was returned to HCRE on September 30, 2019.

HCMSI

		"Services Restructure note"										
Date	Cash receipt amount	Principal	Interest									Total Received in respect of notes
3/5/2019	$ 1,015,000	$ 977,095	$ 37,905									$ 1,015,000
8/9/2019	550,000	550,000	-									550,000
8/21/2019	5,600,000	5,595,862	4,138									5,600,000
12/30/2019	65,360	-	65,360									65,360
1/21/2021	181,227	-	181,227									181,227
Total	**$ 7,411,587**	**$ 7,122,957**	**$ 288,630**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 7,411,587**

HCMFA

		February 26, 2014 Note										
Date	Cash receipt amount	Principal	Interest									Total Received in respect of notes
5/29/2019	$ 1,000,000	$ 978,102	$ 21,898									$ 1,000,000
6/4/2019	500,000	500,000	-									500,000
9/5/2019	500,000	484,172	15,828									500,000
10/3/2019	375,000	375,000	-									375,000
Total	**$ 2,375,000**	**$ 2,337,274**	**$ 37,726**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 2,375,000**

NexPoint

		"NexPoint Restructure note"		September 19, 2019 Note		September 23, 2019 Note						
Date	Cash receipt amount	Principal	Interest	Principal	Interest	Principal	Interest					Total Received in respect of notes
3/29/2019	$ 725,000	$ 411,079	$ 313,921	-	-	-	-					$ 725,000
4/16/2019	1,300,000	1,216,918	83,082	-	-	-	-					1,300,000
6/4/2019	300,000	282,207	17,793	-	-	-	-					300,000
6/19/2019	2,100,000	2,033,972	66,028	-	-	-	-					2,100,000
7/9/2019	630,000	548,650	81,350	-	-	-	-					630,000
8/13/2019	1,300,000	1,160,793	139,207	-	-	-	-					1,300,000
12/9/2019	1,518,575	-	-	500,000	6,658	1,000,000	11,918					1,518,575
12/30/2019	530,112	-	530,112	-	-	-	-					530,112
1/14/2021	1,406,112	575,551	830,561	-	-	-	-					1,406,112
Total	**$ 9,809,800**	**$ 6,229,170**	**$ 2,062,054**	**$ 500,000**	**$ 6,658**	**$ 1,000,000**	**$ 11,918**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 9,809,800**

Total of HCRE, HCMSI, HCMFA, NexPoint after December 31, 2018	**$ 20,945,399**

EXHIBIT 39

HIGHLAND CAPITAL MANAGEMENT, LP

OPERATING RESULTS

February 2018

Highland Capital Management, L.P.
Significant Items Impacting HCMLP's Balance Sheet
February 2018

CLOs
[redacted]

Operating Activities
[redacted]

Investments
[redacted]

Other
- ($3.8M) partner loan

Highland Capital Management, L.P.
Financial/Operational Highlights
February 2018 Close Package
(in millions)

	11/30/2017	12/31/2017	1/31/2018	2/28/2018
Cash	$ 6.4	$ 10.2	$ 2.2	$ 9.6
Operating Revenue	$ 4.3	$ 13.9	$ 4.2	$ 4.4
Operating Expenses (1)	(4.2)	(19.7)	(3.7)	(4.5)
Operating Income	$ 0.1	$ (5.8)	$ 0.5	$ (0.1)
Add back: Non-Recurring Items	$ -	$ -	$ -	$ -
Adjusted Operating Income	$ 0.1	$ (5.8)	$ 0.5	$ (0.1)
Net Income/(Loss)	$ 20.4	$ 17.0	$ 7.2	$ (26.1)

	MTD	YTD	LTM
Operating Cash Flow (2)	$ (6.0)	$ (4.2)	$ (7.6)
Interest Expense	(0.1)	(0.2)	(1.6)
Adjusted Operating Cash Flow	$ (6.1)	$ (4.4)	$ (9.2)

Assets Under Management (billions)	11/30/2017	12/31/2017	1/31/2018
CLO 1.0	$ 2.1	$ 1.9	$ 1.8
Sep. Accounts	1.9	2.0	2.0
Hedge/PE	1.1	1.1	1.1
Total	$ 5.0	$ 5.0	$ 4.9

Headcount - including affiliates	11/30/2017	12/31/2017	1/31/2018	2/28/2018
Front Office	47	45	45	42
Institutional Marketing and Client Service	7	7	9	8
Legal	14	15	15	16
Admin	13	14	13	13
Retail Operations (HCMLP)	4	4	4	4
Back Office	41	38	39	39
HCFD/NSI	21	21	17	16
HCMF Strategy/Marketing	5	5	5	5
Total	152	149	147	143

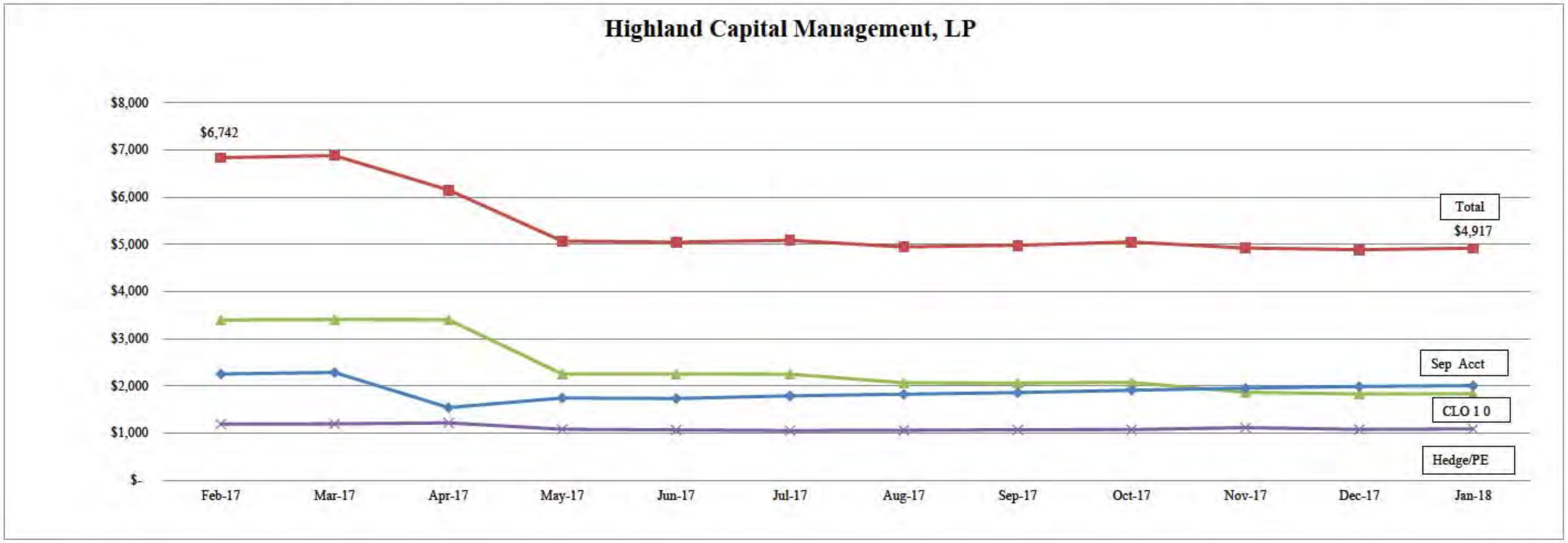
Notes:

(1) Excludes deferred compensation MTM

(2) Operating Cash Flow = Operating Income + Dep. + Deferred Comp + Non-Cash Bonus Expense

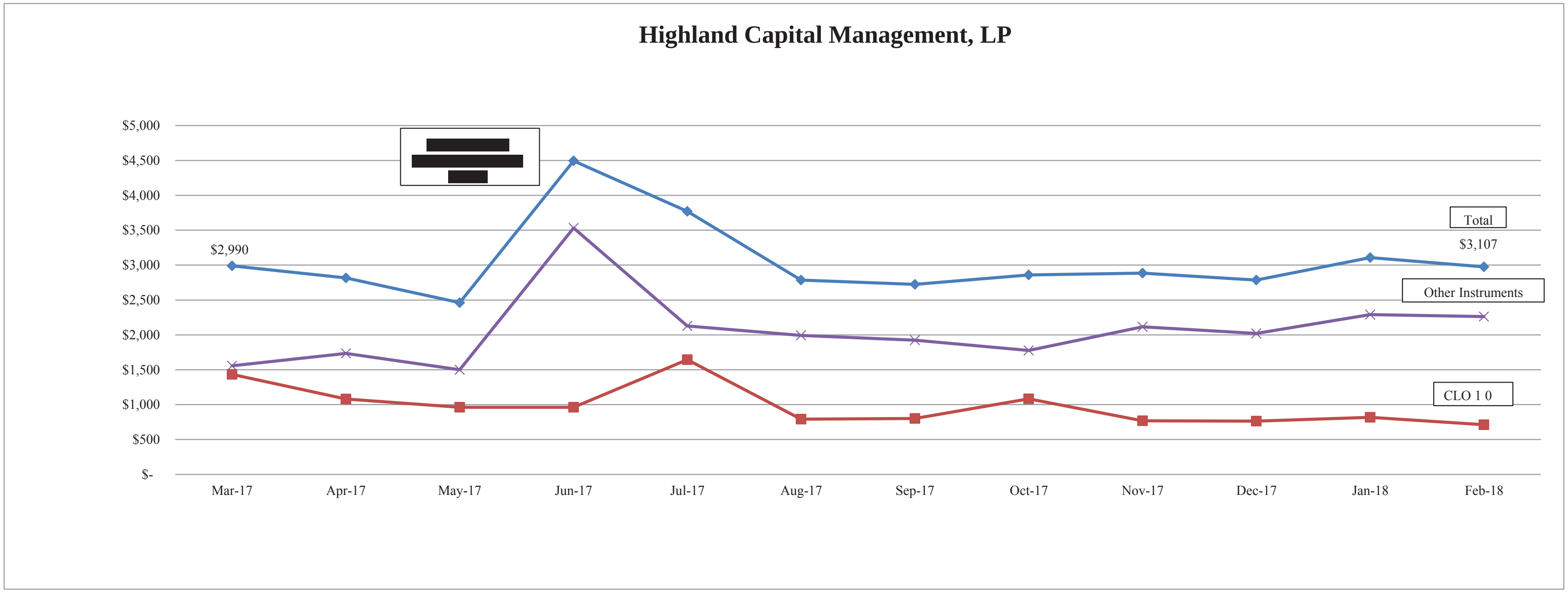
HCMLP Rolling Fee Earning AUM Schedule
(in millions)

	2/28/2017	3/31/2017	4/30/2017	5/31/2017	6/30/2017	7/31/2017	8/31/2017	9/30/2017	10/31/2017	11/30/2017	12/31/2017	1/31/2018
CLO 1 0	$ 3,396	$ 3,405	$ 3,402	$ 2,250	$ 2,250	$ 2,249	$ 2,063	$ 2,060	$ 2,072	$ 1,859	$ 1,827	$ 1,831
Sep Accounts	2,251	2,282	1,538	1,741	1,732	1,787	1,823	1,855	1,905	1,951	1,987	2,003
Hedge/PE	1,189	1,195	1,213	1,076	1,065	1,049	1,058	1,067	1,072	1,112	1,073	1,084
Total	$ 6,742	$ 6,882	$ 6,153	$ 5,067	$ 5,047	$ 5,085	$ 4,945	$ 4,981	$ 5,049	$ 4,922	$ 4,887	$ 4,917



HCMLP Monthly Management Fees
(in thousands)

	3/31/2017	4/30/2017	5/31/2017	6/30/2017	7/31/2017	8/31/2017	9/30/2017	10/31/2017	11/30/2017	12/31/2017	1/31/2018	2/28/2018
CLO 1 0	$ 1,433	$ 1,081	$ 961	$ 961	$ 1,644	$ 793	$ 802	$ 1,082	$ 768	$ 765	$ 817	$ 713
Sep Accounts	577	762	586	327	792	635	563	516	678	584	622	626
Subadvised Account	566	526	505	588	538	520	529	447	620	621	491	497
Hedge/PE Funds	414	446	409	2,617	797	837	831	814	818	817	1,177	1,138
Total	$ 2,990	$ 2,815	$ 2,462	$ 4,494	$ 3,771	$ 2,785	$ 2,725	$ 2,860	$ 2,885	$ 2,786	$ 3,107	$ 2,974



HIGHLAND CAPITAL
MANAGEMENT, LP

Statement of Income
Twelve Months Ended February 2018
(in thousands)

	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	LTM	YTD
Revenue:														
Management fees	$ 2,990	$ 2,815	$ 2,462	$ 4,494	$ 3,771	$ 2,785	$ 2,725	$ 2,860	$ 2,885	$ 3,265	$ 3,129	$ 2,974	$ 37,154	$ 6,103
Shared services fees	817	871	794	620	779	803	757	732	871	873	930	866	9,713	1,796
Incentive fees	-	-	-	-	-	-	-	-	-	10,057	-	-	10,057	-
Other income	431	217	560	477	274	614	562	234	586	912	215	596	5,679	811
Total operating revenue	**4,237**	**3,904**	**3,816**	**5,591**	**4,824**	**4,202**	**4,043**	**3,827**	**4,342**	**15,107**	**4,274**	**4,436**	**62,603**	**8,710**
Operating expenses:														
Compensation and benefits	2,769	2,539	2,495	2,702	2,885	2,800	2,368	2,308	2,795	2,692	2,755	2,769	31,876	5,524
Deferred compensation	222	243	157	214	426	50	297	286	755	291	159	101	3,201	260
Professional services	629	307	1,168	511	616	1,531	472	1,031	649	16,650	181	314	24,060	495
Investment research and consulting	226	175	8	208	14	15	160	22	8	242	13	20	1,111	33
Depreciation	110	110	110	114	112	112	113	112	112	108	109	108	1,328	217
Other operating expenses	875	684	702	1,021	645	988	805	723	497	662	580	683	8,866	1,263
Total operating expenses	**4,831**	**4,057**	**4,640**	**4,770**	**4,697**	**5,495**	**4,216**	**4,482**	**4,816**	**20,646**	**3,798**	**3,995**	**70,442**	**7,793**
Operating income	**(594)**	**(153)**	**(824)**	**821**	**127**	**(1,292)**	**(172)**	**(655)**	**(474)**	**(5,539)**	**476**	**441**	**(7,839)**	**917**
Other income/expense:														
Interest and investment income, net	478	454	493	661	606	558	532	574	937	839	612	473	7,219	1,086
Interest expense	(143)	(141)	(149)	(146)	(142)	(148)	(136)	(141)	(134)	(147)	(141)	(65)	(1,632)	(206)
Other income/expense	59	170	4,060	947	39	13	63	77	64	19,147	81	64	24,784	145
Total other income/expense	**394**	**484**	**4,405**	**1,462**	**503**	**424**	**459**	**510**	**867**	**19,839**	**552**	**472**	**30,370**	**1,024**
Realized and unrealized gain/(loss) from investments:														
Net realized gain/(loss) on sale of investment transactions	1,547	(20)	2,560	272	496	2,811	-	22	-	(1,155)	-	-	6,533	-
Net change in unrealized gain/(loss) of investments	(189)	(460)	4,729	4,338	3,144	(9,361)	9,180	(1,004)	6,375	2,170	10,678	(10,201)	19,398	477
Total realized and unrealized gain/(loss) from investments	**1,358**	**(480)**	**7,290**	**4,610**	**3,640**	**(6,550)**	**9,180**	**(982)**	**6,375**	**1,015**	**10,678**	**(10,201)**	**25,931**	**477**
Earnings and losses from equity method investees														
[redacted]	225	235	(16)	258	44	(201)	333	12	200	329	926	(210)	2,135	716
[redacted]	(2,857)	(558)	(624)	818	(1,908)	1,709	(1,136)	(203)	4,333	529	(1,674)	(5,137)	(6,708)	(6,811)
[redacted]	(5,870)	(1,935)	(1,352)	1,692	(3,860)	3,454	(2,300)	(419)	8,353	1,019	(3,731)	(11,446)	(16,395)	(15,177)
[redacted]	-	-	-	-	-	9	0	15	-	18	-	-	42	-
[redacted]	-	(184)	-	(6)	(15)	-	(14)	(18)	11	102	-	-	(125)	-
[redacted]	-	-	-	-	-	-	-	-	768	-	-	-	768	-
[redacted]	-	-	(1,534)	-	-	-	-	-	-	-	-	-	(1,534)	-
[redacted]	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total earnings/(loss) from equity method investees	**(8,502)**	**(2,441)**	**(3,525)**	**2,762**	**(5,740)**	**4,971**	**(3,118)**	**(613)**	**13,664**	**1,996**	**(4,479)**	**(16,794)**	**(21,817)**	**(21,273)**
Net income	**(7,345)**	**(2,591)**	**7,345**	**9,655**	**(1,470)**	**(2,447)**	**6,348**	**(1,739)**	**20,432**	**17,311**	**7,227**	**(26,081)**	**$ 26,645**	**$ (18,854)**
Profit margin	**-173%**	**-66%**	**192%**	**173%**	**-30%**	**-58%**	**157%**	**-45%**	**471%**	**115%**	**169%**	**-588%**	**43%**	**-216%**
Operating Cash Flow Calculation:														
Operating income	(594)	(153)	(824)	821	127	(1,292)	(172)	(655)	(474)	(5,539)	476	441	(7,839)	917
Add Depreciation expense	110	110	110	114	112	112	113	112	112	108	109	108	1,328	217
Adjustment Deferred compensation	(2,767)	243	157	214	426	50	297	286	755	291	159	(489)	(378)	(330)
Bonus awards	1,000	956	1,000	1,000	1,000	(5,190)	986	1,000	1,300	1,300	1,000	(6,049)	(696)	(5,049)
Operating Cash Flow	**(2,251)**	**1,155**	**442**	**2,149**	**1,664**	**(6,320)**	**1,224**	**743**	**1,693**	**(3,840)**	**1,744**	**(5,989)**	**$ (7,585)**	**$ (4,245)**
Less Interest expense	(143)	(141)	(149)	(146)	(142)	(148)	(136)	(141)	(134)	(147)	(141)	(65)	(1,632)	(206)
Adjusted Operating Cash Flow	**(2,395)**	**1,015**	**293**	**2,003**	**1,523**	**(6,468)**	**1,087**	**603**	**1,559**	**(3,987)**	**1,603**	**(6,054)**	**$ (9,217)**	**$ (4,451)**
Add cash bonus expense	1,063	1,001	1,000	1,100	1,032	1,025	1,000	1,008	1,304	1,300	1,000	1,000	12,832	2,000
Less cash bonuses paid	(63)	(45)	-	(100)	(32)	(6,215)	(14)	(8)	(4)	-	-	(7,049)	(13,528)	(7,049)
Non-cash bonus add-back	**1,000**	**956**	**1,000**	**1,000**	**1,000**	**(5,190)**	**986**	**1,000**	**1,300**	**1,300**	**1,000**	**(6,049)**	**(696)**	**(5,049)**
Add deferred compensation MTM	222	243	157	214	426	50	297	286	755	291	159	101	3,201	260
Less cash deferred awards paid	(2,989)	-	-	-	-	-	-	-	-	-	-	(590)	(3,579)	(590)
Non-cash deferred award add-back	**(2,767)**	**243**	**157**	**214**	**426**	**50**	**297**	**286**	**755**	**291**	**159**	**(489)**	**(378)**	**(330)**

HIGHLAND CAPITAL MANAGEMENT, LP

Balance Sheet
February 2018 vs. January 2018
(in thousands)

	February 28, 2018	January 31, 2018	Increase/ (Decrease) $	Increase/ (Decrease) %
Assets				
Cash and cash equivalents	$ 9,607	$ 2,161	$ 7,446	344.6%
Investments, at fair value	266,615	277,888	(11,273)	-4.1%
Equity method investees	59,692	82,690	(22,997)	-27.8%
Management and incentive fee receivable	1,918	4,988	(3,070)	-61.5%
Deferred incentive fees	-	6,944	(6,944)	0.0%
Fixed assets, net	5,557	5,665	(109)	-1.9%
Due from affiliates	181,222	175,605	5,617	3.2%
Other assets	9,408	10,353	(945)	-9.1%
Total assets	**$ 534,020**	**$ 566,295**	**$ (32,275)**	**(5.7%)**
Liabilities and Partners' Capital				
Accounts payable	$ 2,036	$ 2,667	$ (631)	-23.7%
Due to brokers	35,777	35,842	(64)	-0.2%
Accrued expenses and other liabilities	54,361	59,860	(5,498)	-9.2%
Partners' capital	441,846	467,927	(26,081)	-5.6%
Total liabilities and partners' capital	**$ 534,020**	**$ 566,295**	**$ (32,275)**	**(5.7%)**

Partners' Capital Walk

Partners' capital at 1/31	$ 467,927
Net subscriptions/(redemptions)	-
Net income/(loss)	(26,081)
Partners' capital at 2/28	$ 441,846

HIGHLAND CAPITAL MANAGEMENT, LP

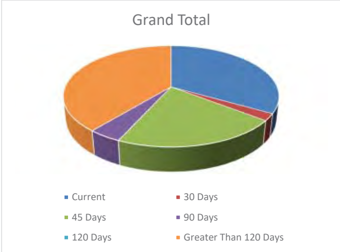
Income Statement
February 2018 YTD vs. January 2017 YTD
(in thousands)

	2018 YTD	2017 YTD	Increase/ (Decrease) $	Increase/ (Decrease) %
Revenue:				
Management fees	$ 6,103	$ 6,106	$ (3)	0.0%
Shared services fees	1,796	1,574	221	14.1%
Other income	811	808	3	0.4%
Total operating revenue	**8,710**	**8,488**	**222**	**2.6%**
Operating expenses:				
Salaries and overtime	2,331	2,274	57	2.5%
Bonus	2,000	1,995	5	0.2%
Other compensation and benefits	1,193	1,125	68	6.1%
Deferred compensation	260	666	(406)	-61.0%
Professional services	495	740	(245)	-33.1%
Investment research and consulting	33	23	10	45.5%
Marketing and advertising expense	341	460	(119)	-25.8%
Depreciation expense	217	221	(4)	-2.0%
Other operating expenses	922	747	175	23.4%
Total operating expenses	**7,793**	**8,252**	**(460)**	**-5.6%**
Operating income/(loss)	**917**	**236**	**681**	**288.5%**
Other income/expense:				
Interest income	1,086	916	170	18.6%
Interest expense	(206)	(244)	39	-15.8%
Other income/expense	145	251	(106)	-42.3%
Total other income/expense	**1,024**	**922**	**103**	**11.1%**
Realized and unrealized gains from investments:				
Net realized losses on sales of investment transactions	-	-	-	0.0%
Net change in unrealized gains/(losses) of investments	477	10,093	(9,616)	95.3%
Total realized and unrealized gains from investments	**477**	**10,093**	**(9,616)**	**-95.3%**
Net earnings/(losses) from equity method investees	(21,273)	6,393	(27,666)	432.8%
Net income/(loss)	**$ (18,854)**	**$ 17,644**	**$ (36,498)**	**206.9%**
Profit margin	**-216%**	**208%**		

Other operating expenses detail				
Rent expense	258	196	61	31 2%
Fees and dues	44	55	(11)	-19 6%
Travel and entertainment	137	201	(63)	-31 6%
Insurance expense	128	50	78	155 8%
Bad debt expense	-	-	-	0 0%
Miscellaneous expenses	354	245	110	44 9%
Total other operating expenses	**922**	**747**	**175**	**23.4%**

HCMLP Analytics
(in thousands)
Accounts Payable Aging Analysis

Vendor Type	Current	30 Days	45 Days	90 Days	120 Days	Greater Than 120 Days	Grand Total	%
Overhead	$ 678	$ 45	$ 433	$ 86	$ -	$ -	$ 1,242	61%
Legal	-	-	-	-	-	794	794	39%
Grand Total	$ 678	$ 45	$ 433	$ 86	$ -	$ 794	$ 2,036	100%
% Outstanding	**33%**	**2%**	**21%**	**4%**	**0%**	**39%**		



Top 5 Legal Greater than 120 Days	February 2018	Top 5 Overhead Greater than 120 Days*	February 2018
[redacted]	$ 292	N/A	-
[redacted]	200		
[redacted]	180		
[redacted]	112		
[redacted]	10		
Total	$ 794	Total	$ -
% Total of AP Outstanding	39%	% Total of AP Outstanding	0%

Fund Reimbursements

Funds	2/28/2018	1/31/2018	2/28/2017	Year-Over-Year $ Change	Year-Over-Year % Change
US CLOs	$ 851	$ 1,893	$ 633	$ 217	34%
Hedge/Private Equity	611	622	497	114	23%
Separate Accounts	30	30	17	13	77%
Retail	194	194	557	(363)	-65%
International/Portfolio Co	3,413	3,668	3,954	(541)	-14%
Research Unallocated	759	311	888	(129)	-15%
Unallocated	1,345	1,297	1,350	-	0%
Total	$ 7,202	$ 8,015	$ 7,896	$ (688)	-9%

	1/31/2018	Net Additions	Receipts	2/28/2018
Month to Month Change	$ 8,015	$ 330	$ (1,143)	$ 7,202

	2/28/2017	2/28/2018	2017 YTD	2018 YTD
Fund Reimbursement Receipts	$ 1,620	$ 1,143	$ 2,225	$ 2,256

HCMLP Invoice Metrics	February 2018	January 2018
Invoices Processed:	162	120
$ Amount Processed:	$ 8,077	$ 11,918
# of Payments	166	152
$ Amount of Payments:	$ 8,558	$ 13,302

Self-Insurance Summary

Entity	Premium Balance
[redacted]	693
[redacted]	370
[redacted]	89
[redacted]	9
[redacted]	(156)
[redacted]	(154)
[redacted]	(197)
[redacted]	(392)
[redacted]	(258)
Total over/(under) funded	**$ 4**

Shared Services Receivables Summary

Entity	Balance
[redacted]	3,730
[redacted]	367
[redacted]	200
[redacted]	40
[redacted]	54
[redacted]	-
[redacted]	-
Total	**$ 4,391**

Highland Capital Management, LP
Schedule of Investments
As of February 2018

Fund	MV @ 1/31/2018	Monthly Change in Unrealized Gain/(Loss)	Contributions, (Distributions) & Realized Gain/(Loss)	MV @ 2/28/2018
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	5,660,653	(29,409)	-	5,631,244

Historical Legal Summary through February 28, 2018
Includes only matters allocated to HCMLP
in thousands

HCMLP Legal by Matter

[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Sub-Total Top 25 Matters		3,469	3,513	8,039	512
Sub-Total Other Matters		31	1	-	-
Total Matters		3,500	3,514	8,039	512

Sorted largest to smallest Matter by 2018 dollars invoiced

HCMLP Legal by Vendor

[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Sub-Total Top 25 Vendors	2,865	3,045	7,450	450
Sub-Total Other Vendors	635	469	589	61
Total Vendors	3,500	3,514	8,039	512

Sorted largest to smallest Vendor by cumulative dollars invoiced ('12 - YTD '18)

Employee Expenses through February 28, 2018
Excludes all Dondero Reimbursements
HCMLP & Certain Affiliated Advisors
in thousands

Employee Expenses - Including Reimbursable

Company	2015	2016	2017	2018	2018 Annualized
[redacted]	$ 838	$ 707	$ 818	$ 93	$ 557
[redacted]	2,447	1,860	1,041	85	509
[redacted]	742	511	292	23	139
[redacted]	-	57	141	18	108
Total	$ 4,027	$ 3,135	$ 2,293	$ 219	$ 1,312

Employee Expenses - Non-Reimbursable Only

Company	2015	2016	2017	2018	2018 Annualized
HCMLP	$ 387	$ 174	$ 396	$ 61	$ 363
HCFD	2,219	933	543	39	231
HCMFA	450	380	256	18	110
NPA	-	16	61	9	55
Total	$ 3,056	$ 1,503	$ 1,257	$ 127	$ 759

EXHIBIT 40

Fill in this information to identify the case:

Debtor name **Highland Capital Management, L.P.**

United States Bankruptcy Court for the: NORTHERN DISTRICT OF TEXAS

Case number (if known) **19-34054-SGJ**

☐ Check if this is an amended filing

Official Form 206Sum
Summary of Assets and Liabilities for Non-Individuals **12/15**

Part 1: Summary of Assets

1. ***Schedule A/B: Assets-Real and Personal Property*** (Official Form 206A/B)

   1a. **Real property:**
   Copy line 88 from *Schedule A/B*............ $ **523,970.00**

   1b. **Total personal property:**
   Copy line 91A from *Schedule A/B*............ $ **409,580,813.30**

   1c. **Total of all property:**
   Copy line 92 from *Schedule A/B*............ $ **410,104,783.30**

Part 2: Summary of Liabilities

2. ***Schedule D: Creditors Who Have Claims Secured by Property*** (Official Form 206D)
   Copy the total dollar amount listed in Column A, *Amount of claim,* from line 3 of *Schedule D*............ $ **34,862,225.94**

3. ***Schedule E/F: Creditors Who Have Unsecured Claims*** (Official Form 206E/F)

   3a. Total claim amounts of priority unsecured claims:
   Copy the total claims from Part 1 from line 5a of *Schedule E/F*............ $ **Unknown**

   3b. Total amount of claims of nonpriority amount of unsecured claims:
   Copy the total of the amount of claims from Part 2 from line 5b of *Schedule E/F*............ +$ **244,455,350.78**

4. **Total liabilities** ....
   Lines 2 + 3a + 3b $ **279,317,576.72**

Debtor **Highland Capital Management, L.P.** Case number *(If known)* **19-34054-SGJ**
Name

General description	Net book value of debtor's interest (Where available)	Valuation method used for current value	Current value of debtor's interest
60. **Patents, copyrights, trademarks, and trade secrets**			
61. **Internet domain names and websites** **139 Domain Names**	**$0.00**	**N/A**	**Unknown**
62. **Licenses, franchises, and royalties** **3rd Party Private Equity Management Company**	**$0.00**	**N/A**	**Unknown**
63. **Customer lists, mailing lists, or other compilations**			
64. **Other intangibles, or intellectual property**			
65. **Goodwill**			

66. **Total of Part 10.**
Add lines 60 through 65. Copy the total to line 89. **Unknown**

67. **Do your lists or records include personally identifiable information of customers** (as defined in 11 U.S.C.§§ 101(41A) and 107**?**
☐ No
☑ Yes

68. **Is there an amortization or other similar schedule available for any of the property listed in Part 10?**
☑ No
☐ Yes

69. **Has any of the property listed in Part 10 been appraised by a professional within the last year?**
☑ No
☐ Yes

Part 11: All other assets

70. **Does the debtor own any other assets that have not yet been reported on this form?**
Include all interests in executory contracts and unexpired leases not previously reported on this form.

☐ No. Go to Part 12.
☑ Yes Fill in the information below.

			Current value of debtor's interest
71. **Notes receivable** Description (include name of obligor) **Notes Receivable (Exhibit D)**	**150,331,222.61** Total face amount	- **Unknown** doubtful or uncollectible amount =	**Unknown**
72. **Tax refunds and unused net operating losses (NOLs)** Description (for example, federal, state, local)			
73. **Interests in insurance policies or annuities**			
74. **Causes of action against third parties (whether or not a lawsuit has been filed)**			

Highland Capital Management LP
Case # 19-34054-SGJ
Exhibit D - Schedule 71A

Notes Receivable		**Total Face Amount [1]**
Hunter Mountain Investment Trust	$	56,873,209.22
Affiliate Note Receivable - A		24,534,644.03
The Dugaboy Investment Trust		18,286,268.16
Affiliate Note Receivable - B		10,413,539.53
Affiliate Note Receivable - C		10,394,680.47
James Dondero		9,334,012.00
Highland Capital Management Services, Inc.		7,482,480.88
Siepe		2,019,256.35
Highland Mult Strategy Credit Fund, LP		3,269,000.00
Highland Capital Management Korea Ltd. [2]		3,132,278.05
Private Portfolio Company - A		2,198,610.05
Mark Okada		1,336,287.84
Private Portfolio Company - B		1,056,956.03
Total	**$**	**150,331,222.61**

[1]Doubtful or Uncollectible accounts are evaluated at year end.
[2] Includes $72,278.05 of intercompany receivable.

EXHIBIT 41

Monthly Operating Report
ACCRUAL BASIS

CASE NAME:	Highland Capital Management
CASE NUMBER:	19-34054
JUDGE: Stacey Jernigan	

UNITED STATES BANKRUPTCY COURT

NORTHERN & EASTERN DISTRICTS OF TEXAS

REGION 6

MONTHLY OPERATING REPORT

MONTH ENDING: December (MONTH) 2019 (YEAR)

IN ACCORDANCE WITH TITLE 28, SECTION 1746, OF THE UNITED STATES CODE, I DECLARE UNDER PENALTY OF PERJURY THAT I HAVE EXAMINED THE FOLLOWING MONTHLY OPERATING REPORT (ACCRUAL BASIS-1 THROUGH ACCRUAL BASIS-7) AND THE ACCOMPANYING ATTACHMENTS AND, TO THE BEST OF MY KNOWLEDGE, THESE DOCUMENTS ARE TRUE, CORRECT, AND COMPLETE. DECLARATION OF THE PREPARER (OTHER THAN RESPONSIBLE PARTY) IS BASED ON ALL INFORMATION OF WHICH PREPARER HAS ANY KNOWLEDGE.

RESPONSIBLE PARTY:

ORIGINAL SIGNATURE OF RESPONSIBLE PARTY — Chief Restructuring Officer (TITLE)

Bradley Sharp (PRINTED NAME OF RESPONSIBLE PARTY) — 1/31/2020 (DATE)

PREPARER:

ORIGINAL SIGNATURE OF PREPARER — Chief Financial Officer (TITLE)

Frank Waterhouse (PRINTED NAME OF PREPARER) — DATE

Monthly Operating Report
ACCRUAL BASIS-1

CASE NAME:	Highland Capital Management, LP
CASE NUMBER:	19-12239-CSS

Comparative Balance Sheet
(in thousands)

	10/15/2019	10/31/2019	11/30/2019	12/31/2019 (6)
Assets				
Cash and cash equivalents	2,529	2,286	6,343	9,501
Investments, at fair value (3)	232,620	235,144	233,776	235,054
Equity method investees (3)	161,819	161,813	175,381	174,815
Management and incentive fee receivable	2,579	3,202	1,223	1,828
Fixed assets, net	3,754	3,672	3,601	3,521
Due from affiliates (1)	151,901	152,124	152,523	146,245
Reserve against notes recievable				(57,963)
Other assets	11,311	11,260	10,621	10,663
Total assets	**$ 566,513**	**$ 569,501**	**$ 583,468**	**$ 523,664**
Liabilities and Partners' Capital				
Pre-petition accounts payable (4)	1,176	1,135	1,250	1,068
Post-petition accounts payable (4)	-	102	236	624
Secured debt:				
Frontier	5,195	5,195	5,195	5,195
Jefferies	30,328	30,315	30,268	30,020
Accrued expenses and other liabilities (4)	59,203	59,184	60,848	66,423
Accrued re-organization related fees (5)	-	-	-	5,693
Claim accrual (2)	73,997	73,997	73,997	73,997
Partners' capital	396,614	399,573	411,674	340,644
Total liabilities and partners' capital	**$ 566,513**	**$ 569,501**	**$ 583,468**	**$ 523,664**

(1) Includes various notes receivable at carrying value, except note due from Hunter Mountain Investment Trust which is fully reserved against ($58M reserve). Fair value has not been determined with respect to any of the notes.

(2) Uncontested portion of Redeemer claim less appplicable offsets. Potential for additional liability based on future events. No interest has been accrued beyond petition date.

(3) Mark to market gains/(losses) on investments include pricing updates for publicly traded securities and other positions with readily available market price information. Limited partnership interests normally marked to a NAV statement have been updated based upon the most recent statement available, or marked to an estimate to the extent available.

(4) Note on accruals: expenses recorded in Accounts Payable and Accrued Expenses and Other Liabilities reflect invoices recorded through accounts payable, legal invoice accruals, and normal course operating accruals, but do not reflect estimates for other incurred, but not yet received invoices. For balance sheet dates other than the Petition Date, amounts include both pre-petition and post-petition liabilities.

(5) At December 31st, 2019, Debtor accrued for post-petition re-organization fees based upon an estimate of fees incurred to date.

(6) All balances are preliminary, unaudited, and subject to further year-end closing entries pursuant to the normal year-end closing process.

Monthly Operating Report
ACCRUAL BASIS-2

CASE NAME:	Highland Capital Management, LP
CASE NUMBER:	19-12239-CSS

Income Statement [1]
(in thousands)

	Date 10/16/19 - 10/31/19	Month ended 11/30/2019	Month ended [4] 12/31/2019	Filing to Date
Revenue:				
Management fees	975	1,638	1,804	4,417
Shared services fees	283	709	596	1,588
Other income	99	418	1,032	1,549
Total operating revenue	**1,357**	**2,765**	**3,433**	**7,555**
Operating expenses:				
Compensation and benefits	997	1,936	2,256	5,188
Professional services	256	90	354	700
Investment research and consulting	10	34	10	54
Marketing and advertising expense	-	35	(15)	20
Depreciation expense	82	82	80	244
Bad debt expense reserve	-	-	8,420	8,420
Other operating expenses	201	480	310	991
Total operating expenses	**1,545**	**2,657**	**11,415**	**15,617**
Operating income/(loss)	**(188)**	**108**	**(7,982)**	**(8,062)**
Other income/expense:				
Interest income	250	484	495	1,230
Interest expense	(107)	(103)	(135)	(346)
Reserve against notes receivable	-	-	(57,963)	(57,963)
Re-org related expenses[2]	-	-	(5,693)	(5,693)
Other income/expense	32	-	-	32
Total other income/expense	**175**	**381**	**(63,296)**	**(62,741)**
Net realized gains/(losses) on investments	339	279	-	618
Net change in unrealized gains/(losses) of investments[3]	2,654	(2,004)	988	1,638
	2,993	**(1,725)**	**988**	**2,256**
Net earnings/(losses) from equity method investees[3]	(20)	13,468	(692)	12,756
Net income/(loss)	**$ 2,959**	**$ 12,232**	**$ (70,982)**	**$ (55,791)**

(1) Note on accruals: expenses recorded in the Income Statement reflect invoices recorded through accounts payable, legal invoice accruals, and normal course operating accruals, but do not reflect estimates for other incurred, but not yet received invoices.

(2) Debtor funded various retainers totaling $790k prior to the petition date, which were entirely expensed as of the petition date. At December 31st, 2019, Debtor accrued for post-petition re-organization fees based upon an estimate of fees incurred to date.

(3) Mark to market gains/(losses) on investments include pricing updates for publicly traded securities and other positions with readily available market price information. Limited partnership interests normally marked to a NAV statement have been updated based upon the most recent statement available, or marked to an estimate to the extent available.

(4) All balances are preliminary, unaudited, and subject to further year-end closing entries pursuant to the normal year-end closing process.

Monthly Operating Report
ACCRUAL BASIS-3A

CASE NAME:	Highland Capital Management
CASE NUMBER:	19-34054

CASH RECEIPTS AND DISBURSEMENTS	OCTOBER	NOVEMBER	DECEMBER	QUARTER
1. CASH - BEGINNING OF MONTH [2]	$ 2,554,230	$ 2,286,160	$ 6,342,598	$ 2,554,230
RECEIPTS FROM OPERATIONS				
2. OTHER OPERATING RECEIPTS	$ 6,912	$ 972,733	$ 883,113	$ 1,862,757
3 MANAGEMENT FEES AND OTHER RELATED RECEIPTS	$ 15,000	$ 1,764,749	$ 1,376,993	$ 3,156,742
COLLECTION OF ACCOUNTS RECEIVABLE				
4 PREPETITION	$ 46,425	$ 2,962,108	$ 584,575	$ 3,593,108
5 POSTPETITION [1]	$ -	$ -	$ -	$ -
6 TOTAL OPERATING RECEIPTS	$ 68,337	$ 5,699,590	$ 2,844,680	$ 8,612,608
NON-OPERATING RECEIPTS				
7 THIRD PARTY FUND ACTUAL/EXPECTED DISTRIBUTIONS	$ 79,266	$ 320,836	$ 23,365	$ 423,468
8 DIVS, PAYDOWNS, MISC FROM INVESTMENT ASSETS	$ 410,189	$ 501,983	$ 425,897	$ 1,338,069
9 OTHER (ATTACH LIST)			$ 3,390,286	$ 3,390,286
10 TOTAL NON-OPERATING RECEIPTS	$ 489,456	$ 822,820	$ 3,839,547	$ 5,151,822
11 TOTAL RECEIPTS	$ 557,793	$ 6,522,410	$ 6,684,227	$ 13,764,430
12 TOTAL CASH AVAILABLE	$ 3,112,023	$ 8,808,570	$ 13,026,825	
OPERATING DISBURSEMENTS				
13 PAYROLL, BENEFITS, AND TAXES + EXP REIMB [(3)]	$ 737,588	$ 961,282	$ 2,077,577	$ 3,776,446
14 SINGAPORE SERVICE FEES	$ 34,633	$ 32,555	$ 27,930	$ 95,118
15 HCM LATIN AMERICA		$ 100,000	$ 100,000	$ 200,000
16 THIRD PARTY FUND CAPITAL CALL OBLIGATION		$ 967,555	$ 459,432	$ 1,426,987
17 UTILITIES				$ -
18 INSURANCE				$ -
19 INVENTORY PURCHASES				$ -
20 VEHICLE EXPENSES				$ -
21 TRAVEL				$ -
22 ENTERTAINMENT				$ -
23 REPAIRS & MAINTENANCE				$ -
24 SUPPLIES				$ -
25 ADVERTISING				$ -
26 OTHER (ATTACH LIST)	$ 53,642	$ 404,581	$ 860,477	$ 1,318,700
27 TOTAL OPERATING DISBURSEMENTS	$ 825,863	$ 2,465,973	$ 3,525,415	$ 6,817,251
REORGANIZATION EXPENSES				
28 PROFESSIONAL FEES				$ -
29 U.S. TRUSTEE FEES				$ -
30 OTHER (ATTACH LIST)				$ -
31 TOTAL REORGANIZATION EXPENSES	$ -	$ -	$ -	$ -
32 TOTAL DISBURSEMENTS	$ 825,863	$ 2,465,973	$ 3,525,415	$ 6,817,251
33 NET CASH FLOW	$ (268,070)	$ 4,056,437	$ 3,158,812	$ 6,947,179
34 CASH - END OF MONTH	$ 2,286,160	$ 6,342,598	$ 9,501,409	$ 9,501,409

1 All postpetition receipts are included in line 3, Management Fees and Other Related Recepits.
2 Beginning cash in October represents the bank balance as of the filing date, while the cash amount shown on the balance sheet includes any outstanding checks.
3 November 30th, 2019 payroll in the amount of $478,337 did not debit the account until December 2nd, 2019. For comparability purposes this $478,337 amount should be added to the November total and subtracted from the December total.

Monthly Operating Report
ACCRUAL BASIS-3B

CASE NAME:	Highland Capital Management
CASE NUMBER:	19-34054

NON-OPERATING RECEIPTS - OTHER

Date	Amount	Description
12/9/2019	1,518,575.34	Note principal or interest
12/9/2019	739.72	Note principal or interest
12/23/2019	783,011.86	Note principal or interest
12/30/2019	530,112.36	Note principal or interest
12/30/2019	65,360.49	Note principal or interest
12/30/2019	201,994.40	Note principal or interest
12/30/2019	275,487.21	Note principal or interest
12/31/2019	15,004.30	Voided Checks
	$3,390,285.68	

OPERATING DISBURSMENTS - OTHER

Date	Amount	Vendor
12/2/2019	155,084.39	Crescent TC Investors LP
12/3/2019	18,289.49	Platinum Parking
12/3/2019	672.72	ProStar Services, Inc
12/3/2019	1,191.25	Gold's Gym International
12/3/2019	1,021.44	Chick-fil-A
12/3/2019	5,052.88	Iron Mountain Records Management
12/3/2019	1,472.00	Platinum Parking
12/5/2019	110.00	FINRA
12/11/2019	5,780.50	Third Party Consultant
12/13/2019	110.00	FINRA
12/13/2019	163.35	Arkadin Inc
12/13/2019	356.00	Jordan Fraker Photography
12/13/2019	480.00	Action Shred of Texas
12/13/2019	1,023.67	UPS Small Package
12/13/2019	1,489.20	Canteen
12/13/2019	3,032.73	Greenwood Office Outfitters, Inc.
12/13/2019	3,659.07	Third Party Consultant
12/13/2019	2,887.50	Centroid Systems, Inc.
12/13/2019	2,394.28	Thomson Reuters West
12/13/2019	8,642.37	Concur Technologies Inc
12/13/2019	23,950.60	Flexential Colorado Corp
12/13/2019	3,234.81	ICE Data Pricing Ref Data LLC
12/13/2019	226.25	Third Party Consultant
12/13/2019	1,155.00	Centroid Systems, Inc.
12/13/2019	4,788.56	Thomson Reuters West
12/13/2019	4,090.46	Concur Technologies Inc
12/16/2019	155,452.35	Bloomberg Finance LP
12/16/2019	1,582.66	Compass Bank Oper
12/16/2019	32,508.98	Bloomberg Finance LP
12/17/2019	259.60	East West Bank
12/17/2019	13,516.50	ATT Mobility
12/17/2019	516.91	DIRECTV
12/19/2019	477.59	PITNEY BOWES
12/19/2019	400.00	PITNEY BOWES
12/19/2019	1,611.00	PITNEY BOWES
12/20/2019	348.00	Visix, Inc.
12/20/2019	1,000.00	Marco Quintana
12/20/2019	21.40	CHASE COURIERS, INC
12/20/2019	751.26	Four Seasons Plantscaping, LLC
12/20/2019	36,084.06	SIEPE SOFTWARE
12/20/2019	248,637.49	SIEPE SERVICES
12/20/2019	31,050.00	McLagan
12/20/2019	6,495.61	ATT Mobility
12/23/2019	27,891.43	Third Party Consultant
12/23/2019	6,942.54	TW Telecom
12/23/2019	6,934.01	TW Telecom
12/24/2019	398.22	Xerox
12/26/2019	548.83	Pitney Bowes
12/27/2019	5,076.50	Third Party Consultant
12/31/2019	17,147.40	Wolters Kluwer
12/31/2019	1,419.08	Oracle America, Inc.
12/31/2019	2,047.22	Zayo Group
12/31/2019	11,000.00	Third Party Consultant
	$ 860,477.16	

Monthly Operating Report
ACCRUAL BASIS-4

CASE NAME:	Highland Capital Management
CASE NUMBER:	19-34054

MGMT FEE RECEIVABLE AGING [2]	**SCHEDULE AMOUNT**	**October**	**November**	**December**
1. 0-30	$ 2,578,744	$ 3,201,548	$ 1,222,880	$1,828,180
2. 31-60				
3. 61-90				
4. 91+				
5. TOTAL MGMT FEE RECEIVABLE	$ 2,578,744	$ 3,201,548	$ 1,222,880	$1,828,180
6. AMOUNT CONSIDERED UNCOLLECTIBLE				
7. MGMT FEE RECEIVABLE (NET)	$ 2,578,744	$ 3,201,548	$ 1,222,880	$1,828,180

AGING OF POSTPETITION TAXES AND PAYABLES **MONTH:** December 2019

TAXES PAYABLE	**0-30 DAYS**	**31-60 DAYS**	**61-90 DAYS**	**91+ DAYS**	**TOTAL**
1. FEDERAL					$0
2. STATE					$0
3. LOCAL					$0
4. OTHER (ATTACH LIST)					$0
5. TOTAL TAXES PAYABLE	$0	$0	$0	$0	$0
6. ACCOUNTS PAYABLE	$413,201	$60,483	$150,355		$624,038

STATUS OF POSTPETITION TAXES [1] **MONTH:** December 2019

FEDERAL	**BEGINNING TAX LIABILITY**	**AMOUNT WITHHELD AND/ 0R ACCRUED**	**AMOUNT PAID**	**ENDING TAX LIABILITY**
1. WITHHOLDING				$0
2. FICA-EMPLOYEE				$0
3. FICA-EMPLOYER				$0
4. UNEMPLOYMENT				$0
5. INCOME				$0
6. OTHER (ATTACH LIST)				$0
7. TOTAL FEDERAL TAXES	$0	$0	$0	$0
STATE AND LOCAL				
8. WITHHOLDING				$0
9. SALES				$0
10. EXCISE				$0
11. UNEMPLOYMENT				$0
12. REAL PROPERTY	$0	$0	$0	$0
13. PERSONAL PROPERTY				$0
14. OTHER (ATTACH LIST)				$0
15. TOTAL STATE & LOCAL	$0	$0	$0	$0
16. TOTAL TAXES	$0	$0	$0	$0

1 The Debtor funds all state and federal employment taxes to Paylocity, who files all required federal and state related employment reports and withholdings.
2 Aging based on when management fee is due and payable.

Monthly Operating Report
ACCRUAL BASIS-5

CASE NAME:	Highland Capital Management
CASE NUMBER:	19-34054

MONTH: December 2019

BANK RECONCILIATIONS	Account #1	Account #2	Account #3	Account #4	Account #5	Account #6	
A. BANK:	BBVA Compass	East West Bank	East West Bank	Maxim Group	Jefferies LLC	Nexbank	TOTAL
B. ACCOUNT NUMBER:	x6342	x4686	x4693	x1885	x0932	x5891	
C. PURPOSE (TYPE):	Operating	Operating	Insurance	Brokerage	Brokerage	CD	
1. BALANCE PER BANK STATEMENT [1]	$ 15,004	$ 8,562,272	$ 132,822	$ 245,849	$ 410,108	$ 136,105	$ 9,502,160
2. ADD: TOTAL DEPOSITS NOT CREDITED							$ -
3. SUBTRACT: OUTSTANDING CHECKS		$ 751					$ 751
4. OTHER RECONCILING ITEMS							$ -
5. MONTH END BALANCE PER BOOKS	$ 15,004	$ 8,561,521	$ 132,822	$ 245,849	$ 410,108	$ 135,205	$ 9,501,409
6. NUMBER OF LAST CHECK WRITTEN	**18133**	**100009**	**n/a**	**n/a**	**n/a**	**n/a**	

INVESTMENT ACCOUNTS BANK, ACCOUNT NAME & NUMBER	DATE OF PURCHASE	TYPE OF INSTRUMENT	PURCHASE PRICE				CURRENT VALUE
7.							
8.							
9.							
10.							
11. TOTAL INVESTMENTS			$0				$0

CASH	
12. CURRENCY ON HAND	$0
13. **TOTAL CASH - END OF MONTH**	$9,501,409

1 For Compass account x6342, subsequent to year end balance was transferred to the East West operating account and the account was closed.

Monthly Operating Report
ACCRUAL BASIS-6

CASE NAME:	Highland Capital Management
CASE NUMBER:	19-34054

MONTH: December 2019

PAYMENTS TO INSIDERS AND PROFESSIONALS

INSIDERS				
	NAME	TYPE OF PAYMENT	AMOUNT PAID	TOTAL PAID POST PETITION
1	Frank Waterhouse	Salary	$29,167	$72,917
2	Frank Waterhouse	Expense Reimbursement	$1,003	$1,508
3	Scott Ellington	Salary	$37,500	$93,750
4	Scott Ellington	Expense Reimbursement	$24	$2,034
5	James Dondero	Salary	$46,875	$117,188
6	James Dondero	Expense Reimbursement [1]	$1,077	$16,346
7	Thomas Surgent	Salary	$33,333	$83,333
8	Thomas Surgent	Expense Reimbursement	$1,007	$1,254
9	Trey Parker	Salary	$29,167	$72,917
10	Trey Parker	Expense Reimbursement	$240	$665
	TOTAL PAYMENTS TO INSIDERS		$179,393	$461,911

1 The total amount of reimbursements during the reporting month also included $24,556 for use of the credit card by the Debtor for office related expenses such as subscriptions, employee lunches, vending supplies, IT equipment/software, employee gifts/awards, non-employee related travel, training and postage.

PROFESSIONALS [2]						
	NAME	DATE OF COURT ORDER AUTHORIZING PAYMENT	AMOUNT APPROVED	AMOUNT PAID	TOTAL PAID TO DATE	TOTAL INCURRED & UNPAID
1.						
2.						
3.						
4.						
5.						
6.	TOTAL PAYMENTS TO PROFESSIONALS			$0	$0	$0

2 Does not include payments to ordinary course professionals.

POSTPETITION STATUS OF SECURED NOTES, LEASES PAYABLE AND ADEQUATE PROTECTION PAYMENTS

	NAME OF CREDITOR	SCHEDULED MONTHLY PAYMENTS DUE	AMOUNTS PAID DURING MONTH	TOTAL UNPAID POSTPETITION
1.	Crescent TC Investors LP (rent portion only)	130,364	130,364	-
2.				
3.				
4.				
5.				
6.	TOTAL	130,364	$130,364	$0

Monthly Operating Report
ACCRUAL BASIS-7

CASE NAME:	Highland Capital Management
CASE NUMBER:	19-34054

MONTH: December 2019

QUESTIONNAIRE

	YES	NO
1. HAVE ANY ASSETS BEEN SOLD OR TRANSFERRED OUTSIDE THE NORMAL COURSE OF BUSINESS THIS REPORTING PERIOD?		x
2. HAVE ANY FUNDS BEEN DISBURSED FROM ANY ACCOUNT OTHER THAN A DEBTOR IN POSSESSION ACCOUNT?	x	
3. ARE ANY POSTPETITION RECEIVABLES (ACCOUNTS, NOTES, OR LOANS) DUE FROM RELATED PARTIES?	x	
4. HAVE ANY PAYMENTS BEEN MADE ON PREPETITION LIABILITIES THIS REPORTING PERIOD?	x	
5. HAVE ANY POSTPETITION LOANS BEEN RECEIVED BY THE DEBTOR FROM ANY PARTY?		x
6. ARE ANY POSTPETITION PAYROLL TAXES PAST DUE?		x
7. ARE ANY POSTPETITION STATE OR FEDERAL INCOME TAXES PAST DUE?		x
8. ARE ANY POSTPETITION REAL ESTATE TAXES PAST DUE?		x
9. ARE ANY OTHER POSTPETITION TAXES PAST DUE?		x
10. ARE ANY AMOUNTS OWED TO POSTPETITION CREDITORS DELINQUENT?		x
11. HAVE ANY PREPETITION TAXES BEEN PAID DURING THE REPORTING PERIOD?		x
12. ARE ANY WAGE PAYMENTS PAST DUE?		x

IF THE ANSWER TO ANY OF THE ABOVE QUESTIONS IS "YES," PROVIDE A DETAILED EXPLANATION OF EACH ITEM. ATTACH ADDITIONAL SHEETS IF NECESSARY.

2 $272,727 of funds transferred from non-debtor-in-possession accounts to debtor-in-possession account.

3 Debtor generates fee income and other receipts from various related parties in normal course, see cash management motion for further discussion.

4 Payments have been made on prepetition liabilities, as approved in the critical vendor motion.

INSURANCE

	YES	NO
1. ARE WORKER'S COMPENSATION, GENERAL LIABILITY AND OTHER NECESSARY INSURANCE COVERAGES IN EFFECT?	x	
2. ARE ALL PREMIUM PAYMENTS PAID CURRENT?	x	
3. PLEASE ITEMIZE POLICIES BELOW.		

IF THE ANSWER TO ANY OF THE ABOVE QUESTIONS IS "NO," OR IF ANY POLICIES HAVE BEEN CANCELLED OR NOT RENEWED DURING THIS REPORTING PERIOD, PROVIDE AN EXPLANATION BELOW. ATTACH ADDITIONAL SHEETS IF NECESSARY.

INSTALLMENT PAYMENTS

TYPE OF POLICY	CARRIER	PERIOD COVERED	PAYMENT AMOUNT & FREQUENCY

EXHIBIT 42

Monthly Operating Report
ACCRUAL BASIS

CASE NAME:	Highland Capital Management
CASE NUMBER:	19-34054
JUDGE: Stacey Jernigan	

UNITED STATES BANKRUPTCY COURT

NORTHERN & EASTERN DISTRICTS OF TEXAS

REGION 6

MONTHLY OPERATING REPORT

MONTH ENDING: September (MONTH) 2020 (YEAR)

IN ACCORDANCE WITH TITLE 28, SECTION 1746, OF THE UNITED STATES CODE, I DECLARE UNDER PENALTY OF PERJURY THAT I HAVE EXAMINED THE FOLLOWING MONTHLY OPERATING REPORT (ACCRUAL BASIS-1 THROUGH ACCRUAL BASIS-7) AND THE ACCOMPANYING ATTACHMENTS AND, TO THE BEST OF MY KNOWLEDGE, THESE DOCUMENTS ARE TRUE, CORRECT, AND COMPLETE. DECLARATION OF THE PREPARER (OTHER THAN RESPONSIBLE PARTY) IS BASED ON ALL INFORMATION OF WHICH PREPARER HAS ANY KNOWLEDGE.

RESPONSIBLE PARTY:

ORIGINAL SIGNATURE OF RESPONSIBLE PARTY

Chief Restructuring Officer/ Chief Executive Officer
TITLE

James Seery
PRINTED NAME OF RESPONSIBLE PARTY

DATE

PREPARER:

ORIGINAL SIGNATURE OF PREPARER

Chief Financial Officer
TITLE

Frank Waterhouse
PRINTED NAME OF PREPARER

DATE

Monthly Operating Report
ACCRUAL BASIS-1

CASE NAME:	Highland Capital Management, LP
CASE NUMBER:	19-12239-CSS

Comparative Balance Sheet
(in thousands)

	10/15/2019	12/31/2019 [6]	9/30/2020 [6]
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Fixed assets, net	3,754	3,521	2,823
Due from affiliates [1]	151,901	146,276	152,585
Reserve against notes recievable		(57,963)	(59,140)
Other assets	11,311	11,463	12,105
Total assets	**$ 566,513**	**$ 531,076**	**$ 328,302**
Liabilities and Partners' Capital			
Pre-petition accounts payable [4]	1,176	1,141	1,051
Post-petition accounts payable [4]	-	2,042	583
Secured debt:			
Frontier	5,195	5,195	5,195
Jefferies	30,328	30,020	-
Accrued expenses and other liabilities [4]	59,203	63,275	58,733
Accrued re-organization related fees [5]	-	5,547	5,922
Claim accrual [2]	73,997	73,997	73,997
Partners' capital	396,614	349,857	182,821
Total liabilities and partners' capital	**$ 566,513**	**$ 531,076**	**$ 328,302**

(1) Includes various notes receivable at carrying value, except note due from Hunter Mountain Investment Trust which is fully reserved against ($59M reserve). Fair value has not been determined with respect to any of the notes.

(2) Uncontested portion of Redeemer claim less appplicable offsets. Potential for additional liability based on future events. No interest has been accrued beyond petition date. No additional accruals will be made on settlement claims until further approval by the court.

(3) Mark to market gains/(losses) on investments include pricing updates for publicly traded securities and other positions with readily available market price information. Certain limited partnership interests normally marked to a NAV statement have not been updated as of period end as statements are generally available on a one-month lag.

(4) Note on accruals: expenses recorded in Accounts Payable and Accrued Expenses and Other Liabilities reflect invoices recorded through accounts payable, legal invoice accruals, and normal course operating accruals, but do not reflect estimates for other incurred, but not yet received invoices. For balance sheet dates other than the Petition Date, amounts include both pre-petition and post-petition liabilities.

(5) Beginning December 31st, 2019, Debtor accrued for post-petition re-organization fees based upon an estimate of fees incurred to date.

(6) All balances at December 31st, 2019 are preliminary, unaudited, and subject to further year-end closing entries pursuant to the normal year-end closing process. As a result, balances for subsequent months have and will fluctuate.

Monthly Operating Report
ACCRUAL BASIS-2

CASE NAME:	**Highland Capital Management, LP**
CASE NUMBER:	**19-12239-CSS**

Income Statement[1]
(in thousands)

	Date	Filing to Year Ended (4)	Month ended (4)	Filing to date (4)
	10/16/19 - 10/31/19	**2019**	**9/30/2020**	
Revenue:				
Management fees	975	4,528	1,495	18,993
Shared services fees	283	1,588	645	7,248
Other income	99	1,582	401	5,058
Total operating revenue	**1,357**	**7,697**	**2,541**	**31,299**
Operating expenses:				
Compensation and benefits	997	1,498	1,668	15,778
Professional services	256	64	190	2,167
Investment research and consulting	10	266	241	960
Marketing and advertising expense	-	370	36	521
Depreciation expense	82	244	76	940
Bad debt expense reserve	-	8,410	124	9,586
Other operating expenses	201	1,265	463	4,665
Total operating expenses	**1,545**	**12,118**	**2,799**	**34,617**
Operating income/(loss)	**(188)**	**(4,421)**	**(258)**	**(3,318)**
Other income/expense:				
Interest income	250	1,230	488	5,616
Interest expense	(107)	(286)	(21)	(675)
Reserve against notes receivable	-	(57,963)	-	(57,963)
Re-org related expenses (2)	-	(5,547)	(3,816)	(28,800)
Independent director fees	-	-	(30)	(1,977)
Other income/expense	32	32	(6)	(144)
Total other income/expense	**175**	**(62,534)**	**(3,386)**	**(83,943)**
Net realized gains/(losses) on investments	339	618	1,133	(27,738)
Net change in unrealized gains/(losses) of investments (3)	2,654	(955)	1,480	(36,847)
	2,993	**(337)**	**2,613**	**(64,585)**
Net earnings/(losses) from equity method investees (3)	(20)	14,918	337	(67,564)
Net income/(loss)	**$ 2,959**	**$ (52,374)**	**$ (694)**	**$ (219,410)**

(1) Note on accruals: expenses recorded in the Income Statement reflect invoices recorded through accounts payable, legal invoice accruals, and normal course operating accruals, but do not reflect estimates for other incurred, but not yet received invoices.

(2) Debtor funded various retainers totaling $790k prior to the petition date, which were entirely expensed as of the petition date.

(3) Mark to market gains/(losses) on investments include pricing updates for publicly traded securities and other positions with readily available market price information. Certain limited partnership interests normally marked to a NAV statement have not been updated as of period end as statements are generally available on a one-month lag.

(4) All balances are preliminary, unaudited, and subject to further year-end closing entries pursuant to the normal year-end closing process. As a result, operating results will change as these entries are made.

Monthly Operating Report ACCRUAL BASIS-3A **Monthly Operating Report** ACCRUAL BASIS-3A

CASE NAME:	Highland Capital Management
CASE NUMBER:	19-34054

CASH RECEIPTS AND DISBURSEMENTS	FILING TO YEAR END 2019	QUARTER 1	QUARTER 2	SEPTEMBER	QUARTER 3
1. CASH - BEGINNING OF MONTH	$ 2,554,230	$ 9,501,409	$ 12,532,467	$ 10,025,528	$ 14,993,872
RECEIPTS FROM OPERATIONS					
2. OTHER OPERATING RECEIPTS	$ 1,862,757	$ 1,379,338	$ 2,983,221	$ 716,191	$ 2,259,736
3 MANAGEMENT FEES AND OTHER RELATED RECEIPTS	$ 3,156,742	$ 7,555,297	$ 6,179,437	$ 1,515,102	$ 5,575,680
COLLECTION OF ACCOUNTS RECEIVABLE					
4 PREPETITION	$ 3,593,108	$ 76,569	$ 3,727	$ -	$ -
5 POSTPETITION [1]	$ -	$ -	$ -	$ -	$ -
6 TOTAL OPERATING RECEIPTS	$ 8,612,608	$ 9,011,204	$ 9,166,385	$ 2,231,293	$ 7,835,415
NON-OPERATING RECEIPTS					
7 THIRD PARTY FUND ACTUAL/EXPECTED DISTRIBUTIONS	$ 423,468	$ 18,992,786	$ 797,571	$ 389,357	$ 610,254
8 DIVS, PAYDOWNS, MISC FROM INVESTMENT ASSETS	$ 1,338,069	$ 477,479	$ 74,376	$ 1,769	$ 5,311
9 OTHER (ATTACH LIST)	$ 3,390,286	$ 1,407,103	$ 10,010,000	$ 67,099	$ 8,817,099
10 TOTAL NON-OPERATING RECEIPTS	$ 5,151,822	$ 20,877,369	$ 10,881,947	$ 458,225	$ 9,432,664
11 TOTAL RECEIPTS	$ 13,764,430	$ 29,888,573	$ 20,048,331	$ 2,689,517	$ 17,268,080
12 TOTAL CASH AVAILABLE				$ 12,715,045	$ 32,261,951
OPERATING DISBURSEMENTS					
13 PAYROLL, BENEFITS, AND TAXES + EXP REIMB	$ 3,776,446	$ 8,825,042	$ 4,886,314	$ 1,428,122	$ 8,806,880
14 SINGAPORE SERVICE FEES	$ 95,118	$ 58,129	$ 2,965	$ -	$ -
15 HCM LATIN AMERICA	$ 200,000	$ 100,000	$ -	$ -	$ -
16 THIRD PARTY FUND CAPITAL CALL OBLIGATION	$ 1,426,987	$ 7,812,469	$ 3,087,163	$ -	$ 979,631
17 UTILITIES	$ -	$ -	$ -	$ -	$ -
18 INSURANCE	$ -	$ 533,940	$ 376,376	$ -	$ 163,400
19 INVENTORY PURCHASES	$ -	$ -	$ -	$ -	$ -
20 VEHICLE EXPENSES	$ -	$ -	$ -	$ -	$ -
21 TRAVEL	$ -	$ -	$ -	$ -	$ -
22 ENTERTAINMENT	$ -	$ -	$ -	$ -	$ -
23 REPAIRS & MAINTENANCE	$ -	$ -	$ -	$ -	$ -
24 SUPPLIES	$ -	$ -	$ -	$ -	$ -
25 ADVERTISING	$ -	$ -	$ -	$ -	$ -
26 OTHER (ATTACH LIST)	$ 1,318,700	$ 3,283,898	$ 3,195,054	$ 1,286,630	$ 3,633,331
27 TOTAL OPERATING DISBURSEMENTS	$ 6,817,251	$ 20,613,478	$ 11,547,870	$ 2,714,752	$ 13,583,243
REORGANIZATION EXPENSES					
28 PROFESSIONAL FEES	$ -	$ 5,460,546	$ 5,572,032	$ 3,902,480	$ 11,551,682
29 U.S. TRUSTEE FEES	$ -	$ 68,173	$ 167,025	$ -	$ 277,924
30 OTHER (ATTACH LIST)	$ -	$ 715,317	$ 300,000	$ 210,000	$ 961,289
31 TOTAL REORGANIZATION EXPENSES	$ -	$ 6,244,037	$ 6,039,057	$ 4,112,480	$ 12,790,896
32 TOTAL DISBURSEMENTS	$ 6,817,251	$ 26,857,515	$ 17,586,927	$ 6,827,232	$ 26,374,138
33 NET CASH FLOW	$ 6,947,179	$ 3,031,058	$ 2,461,404	$ (4,137,715)	$ (9,106,059)
34 CASH - END OF MONTH	$ 9,501,409	$ 12,532,467	$ 14,993,872	$ 5,887,813	$ 5,887,813

1 All postpetition receipts are included in line 3, Management Fees and Other Related Recepits.

Monthly Operating Report
ACCRUAL BASIS-3B

CASE NAME:	Highland Capital Management
CASE NUMBER:	19-34054

OPERATING RECEIPTS - OTHER

Date	Amount	Type
	67,098.85	Nexpoint Real Estate Strategies Fund redemption

OPERATING DISBURSMENTS - INVESTMENT

Date	Amount	Type
	383,041.29	Carey term-loan purchase

OPERATING DISBURSMENTS - OTHER

Date	Amount	Vendor
9/1/2020	18,412.07	Ace Parking Management Inc.
9/1/2020	2,257.01	Bloomberg Finance LP
9/1/2020	3,009.00	Brighthouse Life Insurance Company
9/1/2020	10,611.00	Brighthouse Life Insurance Company
9/1/2020	1,889.22	Canteen Vending Services
9/1/2020	145.20	Chase Couriers, Inc
9/1/2020	950.00	Crescent Research
9/1/2020	144,048.21	Crescent TC Investors LP
9/1/2020	2,067.50	CT Corporation System
9/1/2020	37,583.75	Third Party Consultant
9/1/2020	1,548.97	GRUBHUB for Work
9/1/2020	47,654.00	Houlihan Lokey
9/1/2020	7,617.26	ICE Data Pricing & Reference Data, LLC
9/1/2020	9,500.00	Ipreo Data Inc.
9/1/2020	89.24	Iron Mountain Records Management
9/1/2020	495.86	Jordan Fraker Photography
9/1/2020	3,392.01	NYSE MARKET, INC
9/1/2020	3,051.14	Oak Cliff Office Products
9/1/2020	1,625.00	Paessler
9/1/2020	441.34	ProStar Services, Inc
9/1/2020	107.15	UPS Supply Chain Solutions
9/9/2020	5,884.76	ABM
9/9/2020	432.00	Ace Parking Management Inc.
9/9/2020	600.00	Action Shred of Texas
9/9/2020	1,492.38	Canteen Vending Services
9/9/2020	510.61	CDW Direct
9/9/2020	11,131.97	CT Corporation System
9/9/2020	1,617.81	GRUBHUB for Work
9/9/2020	47,470.00	Houlihan Lokey
9/9/2020	35,200.00	Intex Solutions, Inc.
9/9/2020	2,668.57	Iron Mountain Records Management
9/9/2020	7,500.00	MacroMavens, LLC
9/9/2020	1,570.00	MICRO-TEL
9/9/2020	507.47	ProStar Services, Inc
9/9/2020	16,355.06	S&P Global Market Intelligence
9/9/2020	151,448.26	Siepe Services, LLC
9/9/2020	18,042.03	Siepe Software, LLC
9/9/2020	535.34	Standard Insurance Company
9/9/2020	6,369.17	TW Telecom Holdings, llc
9/9/2020	6,866.42	Willis of Texas, Inc.
9/11/2020	263.81	Directv, LLC
9/11/2020	1,000.00	Pitney Bowes- Purchase Power
9/11/2020	4,335.10	Third Party Consultant
9/14/2020	500.00	Pitney Bowes
9/17/2020	2,082.70	Zayo Group, LLC
9/18/2020	253.94	Arkadin, Inc.
9/18/2020	4,192.71	Third Party Consultant
9/18/2020	2,955.06	AT&T
9/18/2020	137.50	AT&T
9/18/2020	768.58	Audio Visual Innovations, Inc.
9/18/2020	8,140.16	Bloomberg Finance LP
9/18/2020	1,636.20	Canteen Vending Services
9/18/2020	21,863.25	CDW Direct
9/18/2020	700.00	Centroid
9/18/2020	4,059.81	Concur Technologies, Inc.
9/18/2020	369.00	CT Corporation System
9/18/2020	3,031.00	Daltex Janitorial Services, LLC
9/18/2020	859.36	DTCC ITP LLC
9/18/2020	11,887.73	Flexential Colorado Corp.
9/18/2020	2,162.11	Grubhub for Work
9/18/2020	3,762.48	ICE Data Pricing & Reference Data, LLC
9/18/2020	112.21	Iron Mountain Records Management
9/18/2020	3,766.00	MacroView Business Technology
9/18/2020	2,128.81	NYSE Market, Inc
9/18/2020	548.83	Pitney Bowes Financial Services
9/18/2020	6,757.16	Proofpoint
9/18/2020	2,466.10	Thomson West
9/18/2020	301.48	UPS Supply Chain Solutions
9/18/2020	259.80	Venture Mechanical, Inc.
9/18/2020	273.47	Verity Group
9/18/2020	416.57	Analysis Charge
9/18/2020	23.00	Chase Couriers
9/25/2020	16,750.65	Ace Parking Management Inc.
9/25/2020	1,740.82	AT&T
9/25/2020	763.22	AT&T
9/25/2020	7,147.16	AT&T
9/25/2020	1,431.77	Canteen Vending Services
9/25/2020	2,491.11	CDW Direct
9/25/2020	15,000.00	Centroid
9/25/2020	58.62	Chase Couriers
9/25/2020	320.70	CT Corporation System
9/25/2020	7,752.34	Fitch Solutions, Inc.
9/25/2020	484.96	Four Seasons Plantscaping, LLC
9/25/2020	1,480.74	Grubhub for Work
9/25/2020	4,840.01	Liberty Life Assurance Company of Boston - Group Benefits
9/25/2020	562.50	Maples & Calder
9/25/2020	124,634.61	Siepe Services, LLC
9/28/2020	1,412.83	Southland Property Tax Consultants, Inc
9/29/2020	980.96	Xerox Corporation
9/30/2020	11,000.00	Third Party Consultant
9/30/2020	25.00	Bank fees returned Foley Wire
	903,589	

REORGANIZATION EXPENSES - OTHER

Date	Amount	Description
9/1/2020	30,000	Dubel & Associates, L.L.C.
9/1/2020	150,000	J.P. Seery & Co. LLC
9/1/2020	30,000	Nelms and Associates
	210,000	

Monthly Operating Report
ACCRUAL BASIS-4

CASE NAME:	Highland Capital Management
CASE NUMBER:	19-34054

MGMT FEE RECEIVABLE AGING [2]			June [3]	July [3]	August [3]	September [3]
1.	0-30		$ 1,813,292	$2,428,715	$1,768,818	$2,577,696
2.	31-60		$1,163,000	$1,285,718	$772,384	
3.	61-90					$772,384
4.	91+					
5.	TOTAL MGMT FEE RECEIVABLE		$ 2,976,292	$ 3,714,432	$ 2,541,202	$3,350,080
6.	AMOUNT CONSIDERED UNCOLLECTIBLE					
7.	MGMT FEE RECEIVABLE (NET)		$ 2,976,292	$ 3,714,432	$ 2,541,202	$3,350,080

AGING OF POSTPETITION TAXES AND PAYABLES MONTH: September 2020

TAXES PAYABLE	0-30 DAYS	31-60 DAYS	61-90 DAYS	91+ DAYS	TOTAL
1. FEDERAL					$0
2. STATE					$0
3. LOCAL					$0
4. OTHER (ATTACH LIST)					$0
5. TOTAL TAXES PAYABLE	$0	$0	$0	$0	$0
6. ACCOUNTS PAYABLE	$418,457	$16,057	$0	$320,995	$755,509

STATUS OF POSTPETITION TAXES [1] MONTH: September 2020

FEDERAL	BEGINNING TAX LIABILITY	AMOUNT WITHHELD AND/ 0R ACCRUED	AMOUNT PAID	ENDING TAX LIABILITY
1. WITHHOLDING				$0
2. FICA-EMPLOYEE				$0
3. FICA-EMPLOYER				$0
4. UNEMPLOYMENT				$0
5. INCOME				$0
6. OTHER (ATTACH LIST)				$0
7. TOTAL FEDERAL TAXES	$0	$0	$0	$0
STATE AND LOCAL				
8. WITHHOLDING				$0
9. SALES				$0
10. EXCISE				$0
11. UNEMPLOYMENT				$0
12. REAL PROPERTY	$0	$0	$0	$0
13. PERSONAL PROPERTY				$0
14. OTHER (ATTACH LIST)				$0
15. TOTAL STATE & LOCAL	$0	$0	$0	$0
16. TOTAL TAXES	$0	$0	$0	$0

1 The Debtor funds all state and federal employment taxes to Paylocity, who files all required federal and state related employment reports and withholdings.
2 Aging based on when management fee is due and payable.
3 All balances are preliminary, unaudited, and subject to further year-end closing entries pursuant to the normal year-end closing process.

Monthly Operating Report
ACCRUAL BASIS-5

CASE NAME:	Highland Capital Management
CASE NUMBER:	19-34054

MONTH: September 2020

BANK RECONCILIATIONS	Account #1	Account #2	Account #3	Account #4	Account #5	Account #6	TOTAL
A. BANK:	East West Bank	East West Bank	Maxim Group	Jefferies LLC	Nexbank	East West Bank	
B. ACCOUNT NUMBER:	x4686	x4693	x1885	x0932	x5891	x5848	
C. PURPOSE (TYPE):	Operating	Insurance	Brokerage	Brokerage	CD	Prepaid Card	
1. BALANCE PER BANK STATEMENT [1]	$ 5,617,167	$ 32,373	$ 30	$ -	$ 138,190	$ 100,052	$ 5,887,812
2. ADD: TOTAL DEPOSITS NOT CREDITED							$ -
3. SUBTRACT: OUTSTANDING CHECKS							$ -
4. OTHER RECONCILING ITEMS							$ -
5. MONTH END BALANCE PER BOOKS	$ 5,617,167	$ 32,373	$ 30	$ -	$ 138,190	$ 100,052	$ 5,887,812
6. NUMBER OF LAST CHECK WRITTEN	**100510**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	

INVESTMENT ACCOUNTS BANK, ACCOUNT NAME & NUMBER	DATE OF PURCHASE	TYPE OF INSTRUMENT	PURCHASE PRICE				CURRENT VALUE
7.							
8.							
9.							
10.							
11. TOTAL INVESTMENTS			$0				$0

CASH	
12. CURRENCY ON HAND	$0
13. **TOTAL CASH - END OF MONTH**	$5,887,812

1 Account x6342 is now closed.

Monthly Operating Report
ACCRUAL BASIS-6

CASE NAME:	Highland Capital Management
CASE NUMBER:	19-34054

MONTH: September 2020

PAYMENTS TO INSIDERS AND PROFESSIONALS

	INSIDERS			
	NAME	TYPE OF PAYMENT	AMOUNT PAID	TOTAL PAID POST PETITION
1	Frank Waterhouse	Salary	$33,333	$360,417
2	Frank Waterhouse	Expense Reimbursement	$807	$5,918
3	Scott Ellington	Salary	$37,500	$431,250
4	Scott Ellington	Expense Reimbursement	$252	$6,095
5	James Dondero	Salary	$0	$129,972
6	James Dondero	Expense Reimbursement [1]	$0	$16,918
7	Thomas Surgent	Salary	$33,333	$383,333
8	Thomas Surgent	Expense Reimbursement	$456	$4,222
9	Trey Parker	Salary	$0	$131,250
10	Trey Parker	Expense Reimbursement	$0	$6,212
	TOTAL PAYMENTS TO INSIDERS		$105,681	$1,475,585

1 The total amount of reimbursements during the reporting month also included $5,675 for use of the credit card by the Debtor for office related expenses such as subscriptions, vending supplies, and IT equipment/software.

	PROFESSIONALS [2]					
	NAME	DATE OF MONTHLY FEE APPLICATION	AMOUNT APPROVED	AMOUNT PAID	TOTAL PAID TO DATE	TOTAL INCURRED & UNPAID
1.	Kurtzman Carson Consultants LLC		41,966	41,966	532,521	95,605
2.	Sidley Austin LLP		814,318	814,318	5,807,091	1,333,420
3.	Young Conaway Stargatt & Taylor LLP			-	281,156	-
4.	FTI Consulting, Inc.		626,333	626,333	3,607,292	559,823
5.	Pachulski Stang Ziehl & Jones LLP		1,283,329	1,283,329	8,435,219	1,512,143
6	Hayward & Associates PLLC		60,736	60,736	256,412	10,828
7	Development Specialists, Inc.		237,828	237,828	2,351,224	249,129
8	Foley & Lardner LLP		-		464,294	119,516
9	Mercer (US) Inc.		54,328	54,328	170,284	-
10	Wilmer Cutler Pickering Hale and Dorr LLP		618,643	618,643	618,643	
11	Meta-e Discovery LLC		165,000	165,000	165,000	
	TOTAL PAYMENTS TO PROFESSIONALS			3,902,480	22,689,136	3,880,463

2 Does not include payments to ordinary course professionals.

POSTPETITION STATUS OF SECURED NOTES, LEASES PAYABLE AND ADEQUATE PROTECTION PAYMENTS

	NAME OF CREDITOR	SCHEDULED MONTHLY PAYMENTS DUE	AMOUNTS PAID DURING MONTH	TOTAL UNPAID POSTPETITION
1.	Crescent TC Investors LP (rent portion only)	130,364	130,364	-
2.				
3.				
4.				
5.				
6.	TOTAL	130,364	$130,364	$0

Monthly Operating Report
ACCRUAL BASIS-7

CASE NAME:	Highland Capital Management
CASE NUMBER:	19-34054

MONTH: September 2020

QUESTIONNAIRE

	YES	NO
1. HAVE ANY ASSETS BEEN SOLD OR TRANSFERRED OUTSIDE THE NORMAL COURSE OF BUSINESS THIS REPORTING PERIOD?		x
2. HAVE ANY FUNDS BEEN DISBURSED FROM ANY ACCOUNT OTHER THAN A DEBTOR IN POSSESSION ACCOUNT?		x
3. ARE ANY POSTPETITION RECEIVABLES (ACCOUNTS, NOTES, OR LOANS) DUE FROM RELATED PARTIES?	x	
4. HAVE ANY PAYMENTS BEEN MADE ON PREPETITION LIABILITIES THIS REPORTING PERIOD?		x
5. HAVE ANY POSTPETITION LOANS BEEN RECEIVED BY THE DEBTOR FROM ANY PARTY?		x
6. ARE ANY POSTPETITION PAYROLL TAXES PAST DUE?		x
7. ARE ANY POSTPETITION STATE OR FEDERAL INCOME TAXES PAST DUE?		x
8. ARE ANY POSTPETITION REAL ESTATE TAXES PAST DUE?		x
9. ARE ANY OTHER POSTPETITION TAXES PAST DUE?		x
10. ARE ANY AMOUNTS OWED TO POSTPETITION CREDITORS DELINQUENT?		x
11. HAVE ANY PREPETITION TAXES BEEN PAID DURING THE REPORTING PERIOD?		x
12. ARE ANY WAGE PAYMENTS PAST DUE?		x

IF THE ANSWER TO ANY OF THE ABOVE QUESTIONS IS "YES," PROVIDE A DETAILED EXPLANATION OF EACH ITEM. ATTACH ADDITIONAL SHEETS IF NECESSARY.

3 Debtor generates fee income and other receipts from various related parties in normal course, see cash management motion for further discussion.

INSURANCE

	YES	NO
1. ARE WORKER'S COMPENSATION, GENERAL LIABILITY AND OTHER NECESSARY INSURANCE COVERAGES IN EFFECT?	x	
2. ARE ALL PREMIUM PAYMENTS PAID CURRENT?	x	
3. PLEASE ITEMIZE POLICIES BELOW.		

IF THE ANSWER TO ANY OF THE ABOVE QUESTIONS IS "NO," OR IF ANY POLICIES HAVE BEEN CANCELLED OR NOT RENEWED DURING THIS REPORTING PERIOD, PROVIDE AN EXPLANATION BELOW. ATTACH ADDITIONAL SHEETS IF NECESSARY.

INSTALLMENT PAYMENTS

TYPE OF POLICY	CARRIER	PERIOD COVERED	PAYMENT AMOUNT & FREQUENCY

EXHIBIT 43

PROMISSORY NOTE

$7,900,000 January 18, 2018

FOR VALUE RECEIVED, JAMES DONDERO ("***Maker***") promises to pay to the order of HIGHLAND CAPITAL MANAGEMENT LP ("***Payee***"), in legal and lawful tender of the United States of America, the principal sum of SEVEN MILLION, NINE HUNDRED THOUSAND and 00/100 Dollars ($7,900,000.00), together with interest, on the terms set forth below (the "***Note***"). All sums hereunder are payable to Payee at 300 Crescent Court, Dallas, TX 75201, or such other address as Payee may specify to Maker in writing from time to time.

1. Interest Rate. The unpaid principal balance of this Note from time to time outstanding shall bear interest at a rate equal to the long-term "***applicable federal rate***" (2.59%) in effect on the date hereof for loans of such maturity as determined by Section 1274(d) of the Internal Revenue Code, per annum from the date hereof until maturity, compounded annually on the anniversary of the date of this Note. Interest shall be calculated at a daily rate equal to 1/365th (1/366 in a leap year) of the rate per annum, shall be charged and collected on the actual number of days elapsed, and shall be payable on demand of the Payee.

2. Payment of Principal and Interest. The accrued interest and principal of this Note shall be due and payable on demand of the Payee.

3. Prepayment Allowed; Renegotiation Discretionary. Maker may prepay in whole or in part the unpaid principal or accrued interest of this Note. Any payments on this Note shall be applied first to unpaid accrued interest hereon, and then to unpaid principal hereof.

4. Tax Loan. This Note is paid to the Maker to help satisfy any current tax obligations of a former partner or current partner.

5. Acceleration Upon Default. Failure to pay this Note or any installment hereunder as it becomes due shall, at the election of the holder hereof, without notice, demand, presentment, notice of intent to accelerate, notice of acceleration, or any other notice of any kind which are hereby waived, mature the principal of this Note and all interest then accrued, if any, and the same shall at once become due and payable and subject to those remedies of the holder hereof. No failure or delay on the part of Payee in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

6. Waiver. Maker hereby waives grace, demand, presentment for payment, notice of nonpayment, protest, notice of protest, notice of intent to accelerate, notice of acceleration and all other notices of any kind hereunder.

7. Attorneys' Fees. If this Note is not paid at maturity (whether by acceleration or otherwise) and is placed in the hands of an attorney for collection, or if it is collected through a bankruptcy court or any other court after maturity, the Maker shall pay, in addition to all other amounts owing hereunder, all actual expenses of collection, all court costs and reasonable attorneys' fees and expenses incurred by the holder hereof.

8. Limitation on Agreements. All agreements between Maker and Payee, whether now existing or hereafter arising, are hereby limited so that in no event shall the amount paid, or agreed to be paid to Payee for the use, forbearance, or detention of money or for the payment or performance of any covenant or obligation contained herein or in any other document evidencing, securing or pertaining to this Note, exceed the maximum interest rate allowed by law. The terms and provisions of this paragraph shall control and supersede every other provision of all agreements between Payee and Maker in conflict herewith.

9. Governing Law. This Note and the rights and obligations of the parties hereunder shall be governed by the laws of the United States of America and by the laws of the State of Texas, and is performable in Dallas County, Texas.

MAKER:

JAMES DONDERO

EXHIBIT 44

INTENTIONALLY

OMITTED

EXHIBIT 45

TO BE FILED

UNDER SEAL

EXHIBIT 46

TO BE FILED

UNDER SEAL

EXHIBIT 47

PACHULSKI STANG ZIEHL & JONES LLP
Jeffrey N. Pomerantz (CA Bar No.143717) (*admitted pro hac vice*)
Ira D. Kharasch (CA Bar No. 109084) (*admitted pro hac vice*)
John A. Morris (NY Bar No. 2405397) (*admitted pro hac vice*)
Gregory V. Demo (NY Bar No. 5371992) (*admitted pro hac vice*)
Hayley R. Winograd (NY Bar No. 5612569) (*admitted pro hac vice*)
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ZAnnable@HaywardFirm.com
10501 N. Central Expy, Ste. 106
Dallas, Texas 75231
Tel: (972) 755-7100
Fax: (972) 755-7110

Counsel for Highland Capital Management, L.P.

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

In re: HIGHLAND CAPITAL MANAGEMENT, L.P.,[1] Reorganized Debtor.	§ § § § § §	Chapter 11 Case No. 19-34054-sgj11
HIGHLAND CAPITAL MANAGEMENT, L.P., Plaintiff, vs. NEXPOINT ADVISORS, L.P., JAMES DONDERO, NANCY DONDERO, AND THE DUGABOY INVESTMENT TRUST, Defendants.	§ § § § § § § § § § §	Adversary Proceeding No. 21-03005

[1] The Reorganized Debtor's last four digits of its taxpayer identification number are (6725). The headquarters and service address for the above-captioned Reorganized Debtor is 100 Crescent Court, Suite 1850, Dallas, TX 75201.

PLAINTIFF'S AMENDED NOTICE OF RULE 30(b)(6) DEPOSITION TO NEXPOINT ADVISORS, L.P.

PLEASE TAKE NOTICE that, pursuant to Rule 30(b)(6) of the Federal Rules of Civil Procedure, made applicable herein pursuant to Rules 7030 and 9014 of the Federal Rules of Bankruptcy Procedure, Highland Capital Management, L.P. ("Highland"), the plaintiff in the above-referenced adversary proceeding in the above-captioned chapter 11 case, shall take the deposition of NexPoint Advisors, L.P. ("NexPoint") by the person(s) most qualified to testify on NexPoint's behalf with respect to the topics described in **Exhibit A** attached hereto on **October 20, 2021**, commencing at 9:30 a.m. Central Time or at such other day and time as the Plaintiff may agree in writing. The deposition will be taken under oath before a notary public or other person authorized by law to administer oaths and will be visually recorded by video or otherwise.

The deposition will be taken remotely via an online platform due to the coronavirus pandemic such that no one will need to be in the same location as anyone else in order to participate in the deposition and by use of Interactive Realtime. Parties who wish to participate in the deposition should contact **John A. Morris**, Pachulski Stang Ziehl & Jones LLP, at jmorris@pszjlaw.com **no fewer than 72 hours before the start of the deposition** for more information regarding participating in this deposition remotely.

Dated: October 8, 2021.

PACHULSKI STANG ZIEHL & JONES LLP

/s/ John A. Morris

Jeffrey N. Pomerantz (CA Bar No.143717)
Ira D. Kharasch (CA Bar No. 109084)
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ikharasch@pszjlaw.com
jmorris@pszjlaw.com
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-and-

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Dallas, Texas 75231
Tel: (972) 755-7100
Fax: (972) 755-7110

Counsel for Highland Capital Management, L.P.

EXHIBIT A

DEFINITIONS

1. "Answer" means *Defendant NexPoint Advisors, L.P.'s Answer to Amended Complaint*, lodged in Adv. Proc. 21-03005 at Docket No. 64.

2. "Communications" means the transmittal of information (in the form of facts, ideas, inquiries, or otherwise) and includes all oral and written communications of any nature, type or kind including, but not limited to, any ESI (and any attachments thereto), Documents, telephone conversations, text messages, discussions, meetings, facsimiles, e-mails, pagers, memoranda, and any other medium through which any information is conveyed or transmitted.

3. "Concerning" means and includes relating to, constituting, defining, evidencing, mentioning, containing, describing, discussing, embodying, reflecting, edifying, analyzing, stating, referring to, dealing with, or in any way pertaining to the subject matter.

4. "Discovery Requests" means *Plaintiff's Requests for Admission, Interrogatories, and Requests for Production Directed to NexPoint Advisors, L.P.* served on Your counsel by e-mail on September 7, 2021.

5. "Document" means and includes all written, recorded, transcribed or graphic matter of every nature, type and kind, however and by whoever produced, reproduced, disseminated or made. This includes, but is not limited to, Communications, ESI, "writings" as defined by Rule 1001 of the Federal Rules of Evidence, copies or drafts, and any tangible or intangible thing or item that contains any information. Any Document that contains any comment, notation, addition, insertion or marking of any type or kind which is not part of another Document, is to be considered a separate Document.

6. "Note" shall have the meaning ascribed to that term in paragraph 21 of the the *Amended Complaint for (I) Breach of Contract, (II) Turnover of Property, (III) Fraudulent Transfer, and (IV) Breach of Fiduciary Duty*, filed by Highland at Adv. Pro. 21-03005, Docket No. 63.

7. "You" or "Your" means NexPoint Advisors, L.P., and anyone authorized to act on its behalf.

Rule 30(b)6) Topics

Topic No. 1:

Your Answer.

Topic No. 2:

Each Affirmative Defense asserted in Your Answer, including but not limited to all facts and circumstances, Communications, and Documents Concerning each Affirmative Defense. *See* Answer ¶¶ 80-86.

Topic No. 3:

The Note, including but not limited to (a) the negotiation of the Note, (b) the terms of the Note, (c) Communications Concerning the Note, (d) any payments of principal or interest made by You or on Your behalf with respect to the Note; (e) the use of the proceeds of the Note, (f) Your communications with Your outside auditors Concerning the Note and the obligations thereunder, and (g) all agreements Concerning the Note.

Topic No. 4:

Your responses to the Discovery Requests.

EXHIBIT 48

PACHULSKI STANG ZIEHL & JONES LLP
Jeffrey N. Pomerantz (CA Bar No.143717) (*admitted pro hac vice*)
Ira D. Kharasch (CA Bar No. 109084) (*admitted pro hac vice*)
John A. Morris (NY Bar No. 2405397) (*admitted pro hac vice*)
Gregory V. Demo (NY Bar No. 5371992) (*admitted pro hac vice*)
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Fax: (972) 755-7110

Counsel for Highland Capital Management, L.P.

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

In re: HIGHLAND CAPITAL MANAGEMENT, L.P.,[1] Reorganized Debtor.	§ § § § § §	Chapter 11 Case No. 19-34054-sgj11
HIGHLAND CAPITAL MANAGEMENT, L.P., Plaintiff, vs. HIGHLAND CAPITAL MANAGEMENT SERVICES, INC., JAMES DONDERO, NANCY DONDERO, AND DUGABOY INVESTMENT TRUST, Defendants.	§ § § § § § § § § § § § §	Adversary Proceeding No. 21-03006

[1] The Reorganized Debtor's last four digits of its taxpayer identification number are (6725). The headquarters and service address for the above-captioned Reorganized Debtor is 100 Crescent Court, Suite 1850, Dallas, TX 75201.

PLAINTIFF'S AMENDED NOTICE OF RULE 30(b)(6) DEPOSITION
TO HIGHLAND CAPITAL MANAGEMENT SERVICES, INC.

PLEASE TAKE NOTICE that, pursuant to Rule 30(b)(6) of the Federal Rules of Civil Procedure, made applicable herein pursuant to Rules 7030 and 9014 of the Federal Rules of Bankruptcy Procedure, Highland Capital Management, L.P. ("Highland"), the plaintiff in the above-referenced adversary proceeding in the above-captioned chapter 11 case, shall take the deposition of Highland Capital Management Services, Inc. ("HCMS") by the person(s) most qualified to testify on HCMS's behalf with respect to the topics described in **Exhibit A** attached hereto on **October 20, 2021**, commencing at 9:30 a.m. Central Time or at such other day and time as the Plaintiff may agree in writing. The deposition will be taken under oath before a notary public or other person authorized by law to administer oaths and will be visually recorded by video or otherwise.

The deposition will be taken remotely via an online platform due to the coronavirus pandemic such that no one will need to be in the same location as anyone else in order to participate in the deposition and by use of Interactive Realtime. Parties who wish to participate in the deposition should contact **John A. Morris**, Pachulski Stang Ziehl & Jones LLP, at jmorris@pszjlaw.com **no fewer than 72 hours before the start of the deposition** for more information regarding participating in this deposition remotely.

Dated: October 8, 2021.

PACHULSKI STANG ZIEHL & JONES LLP

/s/ John A. Morris

Jeffrey N. Pomerantz (CA Bar No.143717)
Ira D. Kharasch (CA Bar No. 109084)
John A. Morris (NY Bar No. 2405397)
Gregory V. Demo (NY Bar No. 5371992)
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-and-

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Fax: (972) 755-7110

Counsel for Highland Capital Management, L.P.

EXHIBIT A

DEFINITIONS

1. "Answer" means *Defendant Defendant Highland Capital Management Services, Inc.'s Answer to Amended Complaint*, lodged in Adv. Proc. 21-03006 at Docket No. 73.

2. "Communications" means the transmittal of information (in the form of facts, ideas, inquiries, or otherwise) and includes all oral and written communications of any nature, type or kind including, but not limited to, any ESI (and any attachments thereto), Documents, telephone conversations, text messages, discussions, meetings, facsimiles, e-mails, pagers, memoranda, and any other medium through which any information is conveyed or transmitted.

3. "Concerning" means and includes relating to, constituting, defining, evidencing, mentioning, containing, describing, discussing, embodying, reflecting, edifying, analyzing, stating, referring to, dealing with, or in any way pertaining to the subject matter.

4. "Discovery Requests" means *Plaintiff's Requests for Admission, Interrogatories, and Requests for Production Directed to Highland Capital Management Services, Inc.* served on Your counsel by e-mail on September 7, 2021.

5. "Document" means and includes all written, recorded, transcribed or graphic matter of every nature, type and kind, however and by whoever produced, reproduced, disseminated or made. This includes, but is not limited to, Communications, ESI, "writings" as defined by Rule 1001 of the Federal Rules of Evidence, copies or drafts, and any tangible or intangible thing or item that contains any information. Any Document that contains any comment, notation, addition, insertion or marking of any type or kind which is not part of another Document, is to be considered a separate Document.

6. "Demand Notes" shall have the meaning ascribed to that term in paragraph 24 of the the *Amended Complaint for (I) Breach of Contract, (II) Turnover of Property, (III) Fraudulent Transfer, and (IV) Breach of Fiduciary Duty*, filed by Highland at Adv. Pro. 21-03006, Docket No. 68.

7. "You" or "Your" means Highland Capital Management Services, Inc., and anyone authorized to act on its behalf.

Rule 30(b)6) Topics

Topic No. 1:

Your Answer.

Topic No. 2:

Each Affirmative Defense asserted in Your Answer, including but not limited to all facts and circumstances, Communications, and Documents Concerning each Affirmative Defense. *See* Answer ¶¶ 94-102.

Topic No. 3:

The Demand Notes, including but not limited to (a) the negotiation of the Demand Notes, (b) the terms of the Demand Notes, (c) Communications Concerning the Demand Notes, (d) any payments of principal or interest made by You or on Your behalf with respect to the Demand Notes; (e) the use of the proceeds of the Demand Notes, (f) Your communications with Your outside auditors Concerning the Demand Notes and the obligations thereunder, and (g) all agreements Concerning the Demand Notes.

Topic No. 4:

Your responses to the Discovery Requests.

EXHIBIT 49

PACHULSKI STANG ZIEHL & JONES LLP
Jeffrey N. Pomerantz (CA Bar No.143717) (*admitted pro hac vice*)
Ira D. Kharasch (CA Bar No. 109084) (*admitted pro hac vice*)
John A. Morris (NY Bar No. 2405397) (*admitted pro hac vice*)
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Fax: (972) 755-7110

Counsel for Highland Capital Management, L.P.

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

In re: HIGHLAND CAPITAL MANAGEMENT, L.P.,[1] Reorganized Debtor.	§ § § § § §	Chapter 11 Case No. 19-34054-sgj11
HIGHLAND CAPITAL MANAGEMENT, L.P., Plaintiff, vs. HCRE PARTNERS LLC (N/K/A NEXPOINT REAL ESTATE PARTNERS LLC), JAMES DONDERO, NANCY DONDERO, AND THE DUGABOY INVESTMENT TRUST, Defendants.	§ § § § § § § § § § § § §	Adversary Proceeding No. 21-03007

[1] The Reorganized Debtor's last four digits of its taxpayer identification number are (6725). The headquarters and service address for the above-captioned Reorganized Debtor is 100 Crescent Court, Suite 1850, Dallas, TX 75201.

PLAINTIFF'S AMENDED NOTICE OF RULE 30(b)(6) DEPOSITION TO HCRE PARTNERS LLC (N/K/A NEXPOINT REAL ESTATE PARTNERS, LLC).

PLEASE TAKE NOTICE that, pursuant to Rule 30(b)(6) of the Federal Rules of Civil Procedure, made applicable herein pursuant to Rules 7030 and 9014 of the Federal Rules of Bankruptcy Procedure, Highland Capital Management, L.P. ("Highland"), the plaintiff in the above-referenced adversary proceeding in the above-captioned chapter 11 case, shall take the deposition of HCRE Partners, LLC (n/k/a NexPoint Real Estate Partners, LLC) ("HCRE") by the person(s) most qualified to testify on HCRE's behalf with respect to the topics described in **Exhibit A** attached hereto on **October 20, 2021**, commencing at 9:30 a.m. Central Time or at such other day and time as the Plaintiff may agree in writing. The deposition will be taken under oath before a notary public or other person authorized by law to administer oaths and will be visually recorded by video or otherwise.

The deposition will be taken remotely via an online platform due to the coronavirus pandemic such that no one will need to be in the same location as anyone else in order to participate in the deposition and by use of Interactive Realtime. Parties who wish to participate in the deposition should contact **John A. Morris**, Pachulski Stang Ziehl & Jones LLP, at jmorris@pszjlaw.com **no fewer than 72 hours before the start of the deposition** for more information regarding participating in this deposition remotely.

Dated: October 8, 2021.

PACHULSKI STANG ZIEHL & JONES LLP

/s/ John A. Morris

Jeffrey N. Pomerantz (CA Bar No.143717)
Ira D. Kharasch (CA Bar No. 109084)
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-and-

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Fax: (972) 755-7110

Counsel for Highland Capital Management, L.P.

EXHIBIT A

DEFINITIONS

1. "Answer" means *Defendant HCRE Partners, LLC (n/k/a NexPoint Real Estate Partners, LLC)'s Answer to Amended Complaint*, lodged in Adv. Proc. 21-03007 at Docket No. 68.

2. "Communications" means the transmittal of information (in the form of facts, ideas, inquiries, or otherwise) and includes all oral and written communications of any nature, type or kind including, but not limited to, any ESI (and any attachments thereto), Documents, telephone conversations, text messages, discussions, meetings, facsimiles, e-mails, pagers, memoranda, and any other medium through which any information is conveyed or transmitted.

3. "Concerning" means and includes relating to, constituting, defining, evidencing, mentioning, containing, describing, discussing, embodying, reflecting, edifying, analyzing, stating, referring to, dealing with, or in any way pertaining to the subject matter.

4. "Discovery Requests" means *Plaintiff's Requests for Admission, Interrogatories, and Requests for Production Directed to HCRE Partners, LLC (n/k/a NexPoint Real Estate Partners LLC)* served on Your counsel by e-mail on September 7, 2021.

5. "Document" means and includes all written, recorded, transcribed or graphic matter of every nature, type and kind, however and by whoever produced, reproduced, disseminated or made. This includes, but is not limited to, Communications, ESI, "writings" as defined by Rule 1001 of the Federal Rules of Evidence, copies or drafts, and any tangible or intangible thing or item that contains any information. Any Document that contains any comment, notation, addition, insertion or marking of any type or kind which is not part of another Document, is to be considered a separate Document.

6. "Demand Notes" shall have the meaning ascribed to that term in paragraph 24 of the the *Amended Complaint for (I) Breach of Contract, (II) Turnover of Property, (III) Fraudulent Transfer, and (IV) Breach of Fiduciary Duty*, filed by Highland at Adv. Pro. 21-03006, Docket No. 63.

7. "You" or "Your" means HCRE Partners, LLC (n/k/a NexPoint Real Estate Partners, LLC), and anyone authorized to act on its behalf.

Rule 30(b)6) Topics

Topic No. 1:

Your Answer.

Topic No. 2:

Each Affirmative Defense asserted in Your Answer, including but not limited to all facts and circumstances, Communications, and Documents Concerning each Affirmative Defense. *See* Answer ¶¶ 96-104.

Topic No. 3:

The Demand Notes, including but not limited to (a) the negotiation of the Demand Notes, (b) the terms of the Demand Notes, (c) Communications Concerning the Demand Notes, (d) any payments of principal or interest made by You or on Your behalf with respect to the Demand Notes; (e) the use of the proceeds of the Demand Notes, (f) Your communications with Your outside auditors Concerning the Demand Notes and the obligations thereunder; and (g) any agreements Concerning the Demand Notes.

Topic No. 4:

Your responses to the Discovery Requests.

EXHIBIT 50

James Dondero
Compensation and Benefit Statement

Job Title: Partner
Department: Executive

EARNINGS AND AWARDS	
2017 Base Salary (as of 12/31/17)	$2,500,024
2017 Other Awards	
401(k) Match	$ 4,800
Estimated 2017 Profit Sharing (will be contributed in 2018)	$ 20,250
*Final profit sharing award subject to passing IRS mandated testing	
2018 NXRT RSU Award	$1,550,250
• You have been granted 65,772 restricted stock units of NXRT for the 2017 performance year	
2017 Total Earnings and Awards	**$4,075,324**

HIGHLAND PAID BENEFITS	
Medical & Dental Insurance	$ 14,134
Life, AD&D and Disability Insurance	$ 968
Executive Long Term Disability	$ 1,260
Daily Catered Lunches	$ 3,000
Parking	$ 2,160
Cell Phone	$ 1,680
2017 Estimated Total Value of Highland Paid Benefits	**$ 23,203**

TOTAL COMPENSATION PACKAGE	**$4,098,527**

EXHIBIT 51

James Dondero
Compensation and Benefit Statement

Job Title: Partner
Department: Executive

EARNINGS AND AWARDS	
2018 Base Salary (as of 12/31/18)	$2,500,000
2018 Other Awards	
401(k) Match	$ 4,800
Estimated 2018 Profit Sharing (will be contributed in 2019)	$ 20,625
*Final profit sharing award subject to passing IRS mandated testing	
2019 NXRT RSU Award	$1,669,500
• You have been granted 44,520 restricted stock units of NXRT for the 2018 performance year	
2018 Total Earnings and Awards	**$4,194,925**

HIGHLAND PAID BENEFITS	
Medical & Dental Insurance	$ 14,192
Life, AD&D and Disability Insurance	$ 1,044
Executive Long Term Disability	$ 1,260
Daily Catered Lunches	$ 3,000
Parking	$ 2,160
Cell Phone	$ 1,680
2018 Estimated Total Value of Highland Paid Benefits	**$ 23,336**

TOTAL COMPENSATION PACKAGE	**$4,218,262**

EXHIBIT 52

James Dondero
Compensation and Benefit Statement

Job Title: Partner
Department: Executive

EARNINGS AND AWARDS	
2019 Base Salary (as of 12/31/19)	$2,500,000
2019 Other Awards	
401(k) Match	$ 5,000
Estimated 2019 Profit Sharing (will be contributed in 2020)	$ 21,000
*Final profit sharing award subject to passing IRS mandated testing	
2019 Deferred Compensation Award	$5,608,500
• $2,465,000 grant amount in NXRT; 5-year vesting period	
• $850,500 grant amount in NREF; 4-year vesting period	
• $1,771,000 grant amount in VineBrook; 4-year vesting period	
2019 Total Earnings and Awards	**$8,134,500**

HIGHLAND PAID BENEFITS	
Medical & Dental Insurance	$ 14,417
Life, AD&D and Disability Insurance	$ 1,044
Executive Long Term Disability	$ 1,260
Daily Catered Lunches	$ 3,000
Parking	$ 2,160
Cell Phone	$ 1,680
2019 Estimated Total Value of Highland Paid Benefits	**$ 23,562**

TOTAL COMPENSATION PACKAGE	**$8,158,062**

EXHIBIT 53

From: David Klos
Sent: Thursday, May 02, 2019 3:54 PM
To: Blair Roeber <BRoeber@HighlandCapital.com>
Cc: Kristin Hendrix <KHendrix@HighlandCapital.com>
Subject: FW: Calc

$2,398,842 – Please send to GAF asap per Frank.

From: Frank Waterhouse
Sent: Thursday, May 2, 2019 2:23 PM
To: David Klos ; Kristin Hendrix
Subject: FW: Calc

Here is the support for the payment to GAF from HCMFA. As soon as I hear from Thomas I will let you know.

From: Will Mabry <WMabry@HighlandCapital.com>
Sent: Thursday, May 2, 2019 2:18 PM
To: Frank Waterhouse <FWaterhouse@HighlandCapital.com>
Cc: Clifford Stoops <CStoops@HighlandCapital.com>
Subject: RE: Calc

It's available now. The amount is per the response $2,398,842 calc. Support attached.

From: Frank Waterhouse <FWaterhouse@HighlandCapital.com>
Sent: Thursday, May 2, 2019 2:15 PM
To: Will Mabry <WMabry@HighlandCapital.com>
Cc: Clifford Stoops <CStoops@HighlandCapital.com>
Subject: Calc

Will-

Do you have an eta of when you will have?

Thanks
Frank

FRANK WATERHOUSE | PARTNER & CHIEF FINANCIAL OFFICER

HIGHLAND CAPITAL MANAGEMENT

300 Crescent Court | Suite 700 | Dallas, Texas 75201
O: 972.419.2538 | F: 972.628.4147
fwaterhouse@highlandcapital.com | www.highlandcapital.com

Numerical summary as set forth in the 4/7/19 amended memorandum of TerreStar Equity NAV Error

	Transaction Date(s)	Loss to Fund	Estimated Loss to Shareholders [3]	Totals
Estimated Net Loss	3/14/18 thru 1/7/19	(6,068,851)	(1,373,272)	(7,442,123)
Processing, Fees, Interest	3/14/18 thru 1/7/19	(375,000)	-	(375,000)
Insurance Proceeds	2/15/2019	3,566,248	1,373,272	4,939,520
Insurance deductible paid by Adviser	2/15/2019	246,976	-	246,976
Management fee offset	4/1/2019	47,000	-	47,000
Additional payment from Adviser	5/2/2019	2,339,627 [2]	-	2,339,627
Reimbursement of Processing costs from Adviser	Note 1	244,000	-	244,000
Total		-	-	-

Supplemental Numerical Update

Additional estimated loss to fund and shareholders	1/8/19 thru 1/28/19 [5]	(19,789)
Additional processing, management fees, and interest	Note 4	(39,426)
Additional payment from Adviser	5/2/2019	59,215
Total additional payment from Adviser	**5/2/2019**	**2,398,842**

Notes

1 - Expected to be incurred thru 12/31/19, and will be reimbursed by Adviser as incurred.

2 - Includes $2,255,628 of previously outstanding balance, and $84,000 of interest calculated through 1/7/19, which was the "as of date" used for the calculations in the OCA submission.

3 - Represents the estimated losses to shareholder subscribing into the fund during the NAV Restatement Period and estimated losses to be determined after reprocessing individual capital activity that was held in Omnibus accounts.

4 - Proposal from service provider was higher than original estimate, and includes interest thru date of final payment made by Adviser.

5 - This includes the calculations subsequent to 1/7/19 (which was the "as of date" used for the calculations in the OCA submission) "through date" 1/28/19, which the final date in which the revised mark was fully reflected in the NAV.

EXHIBIT 54

From: Kristin Hendrix
Sent: Thursday, May 02, 2019 12:33 PM
To: Hayley Eliason <HEliason@HighlandCapital.com>; Blair Roeber <BRoeber@HighlandCapital.com>
Subject: FW: HCMLP to HCMFA loan

Blair,

Here is a copy of the note for support.

Hayley – FYI for your loan tracker.

From: David Klos
Sent: Thursday, May 02, 2019 11:24 AM
To: Corporate Accounting
Subject: HCMLP to HCMFA loan

Blair,
Please send $2,400,000 from HCMLP to HCMFA. This is a new interco loan. Kristin, can you or Hayley please prep a note for execution. I'll have further instructions later today, but please process this payment as soon as possible.

DAVID KLOS | CONTROLLER

HIGHLAND CAPITAL MANAGEMENT

300 Crescent Court | Suite 700 | Dallas, Texas 75201
C: 214.674.2926 | O: 972.419.4478 | F: 972 628.4147
dklos@highlandcapital.com | www.highlandcapital.com

PROMISSORY NOTE

$2,400,000.00 May 2, 2019

FOR VALUE RECEIVED, HIGHLAND CAPITAL MANAGEMENT FUND ADVISORS, LP. ("***Maker***") promises to pay to the order of HIGHLAND CAPITAL MANAGEMENT, LP ("***Payee***"), in legal and lawful tender of the United States of America, the principal sum of TWO MILLION FOUR HUNDRED THOUSAND and 00/100 Dollars ($2,400,000.00), together with interest, on the terms set forth below (the "***Note***"). All sums hereunder are payable to Payee at 300 Crescent Court, Dallas, TX 75201, or such other address as Payee may specify to Maker in writing from time to time.

1. Interest Rate. The unpaid principal balance of this Note from time to time outstanding shall bear interest at a rate equal to the short-term "***applicable federal rate***" (2.39%) in effect on the date hereof for loans of such maturity as determined by Section 1274(d) of the Internal Revenue Code, per annum from the date hereof until maturity, compounded annually on the anniversary of the date of this Note. Interest shall be calculated at a daily rate equal to 1/365th (1/366 in a leap year) of the rate per annum, shall be charged and collected on the actual number of days elapsed, and shall be payable on demand of the Payee.

2. Payment of Principal and Interest. The accrued interest and principal of this Note shall be due and payable on demand.

3. Prepayment Allowed; Renegotiation Discretionary. Maker may prepay in whole or in part the unpaid principal or accrued interest of this Note. Any payments on this Note shall be applied first to unpaid accrued interest hereon, and then to unpaid principal hereof.

4. Acceleration Upon Default. Failure to pay this Note or any installment hereunder as it becomes due shall, at the election of the holder hereof, without notice, demand, presentment, notice of intent to accelerate, notice of acceleration, or any other notice of any kind which are hereby waived, mature the principal of this Note and all interest then accrued, if any, and the same shall at once become due and payable and subject to those remedies of the holder hereof. No failure or delay on the part of Payee in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

5. Waiver. Maker hereby waives grace, demand, presentment for payment, notice of nonpayment, protest, notice of protest, notice of intent to accelerate, notice of acceleration and all other notices of any kind hereunder.

6. Attorneys' Fees. If this Note is not paid at maturity (whether by acceleration or otherwise) and is placed in the hands of an attorney for collection, or if it is collected through a bankruptcy court or any other court after maturity, the Maker shall pay, in addition to all other amounts owing hereunder, all actual expenses of collection, all court costs and reasonable attorneys' fees and expenses incurred by the holder hereof.

7. Limitation on Agreements. All agreements between Maker and Payee, whether now existing or hereafter arising, are hereby limited so that in no event shall the amount paid, or agreed to be paid to Payee for the use, forbearance, or detention of money or for the payment or performance of any covenant or obligation contained herein or in any other document evidencing, securing or pertaining to this Note, exceed the maximum interest rate allowed by law. The terms and provisions of this paragraph shall control and supersede every other provision of all agreements between Payee and Maker in conflict herewith.

8. Governing Law. This Note and the rights and obligations of the parties hereunder shall be governed by the laws of the United States of America and by the laws of the State of Texas, and is performable in Dallas County, Texas.

MAKER:

FRANK WATERHOUSE

EXHIBIT 55

5/2/2019 Wires

			Description	Notes
HCM				
HCMFA	USD	2,400,000.00	Loan	
Siepe Services	USD	187,856.26	March	
HCM *513	USD	123,842.97	May 2019 BCBS	
Select	USD	100,000.00	Margin Call	
CDW	USD	4,145.57		
CT Corp	USD	1,077.75		
HCMFA				
Highland Opp Credit Fund	USD	27,694.31		
HCM *513	USD	19,968.45	May 2019 BCBS	
Highland Merger Arb	USD	18,494.04	April 2019 Advisory Fees	
Highland Tax Exempt	USD	12,783.25		
Morgan Stanley	USD	11,107.39		
Highland MLP Fund	USD	10,354.06		
Wells Fargo	USD	7,814.20		
Pershing	USD	5,719.83		
Highland Commissions DDA	USD	5,000.00	DST Daily Commissions Debit Account Funding	
Financial Data Services	USD	277.66		

EXHIBIT 56

From: Kristin Hendrix
Sent: Friday, May 03, 2019 3:06 PM
To: Corporate Accounting <CorporateAccounting@hcmlp.com>
Subject: HCMLP Loan to HCMFA

Blair,

Please set up a wire from HCMLP to HCMFA for $5M as a new loan ($4.4M should be coming in from Jim soon).

Hayley, please add this to your loan tracker. I will paper the loan.

Thanks,

Kristin Hendrix, CPA | Manager, Corporate Accounting

HIGHLAND CAPITAL MANAGEMENT

300 Crescent Court | Suite 700 | Dallas, Texas 75201
O: 972.628.4127 | F: 972.628.4147
khendrix@highlandcapital.com | www.highlandcapital.com

D-CNL003763

EXHIBIT 57

PROMISSORY NOTE

$5,000,000.00 May 3, 2019

FOR VALUE RECEIVED, HIGHLAND CAPITAL MANAGEMENT FUND ADVISORS, LP. ("***Maker***") promises to pay to the order of HIGHLAND CAPITAL MANAGEMENT, LP ("***Payee***"), in legal and lawful tender of the United States of America, the principal sum of FIVE MILLION and 00/100 Dollars ($5,000,000.00), together with interest, on the terms set forth below (the "***Note***"). All sums hereunder are payable to Payee at 300 Crescent Court, Dallas, TX 75201, or such other address as Payee may specify to Maker in writing from time to time.

1. Interest Rate. The unpaid principal balance of this Note from time to time outstanding shall bear interest at a rate equal to the short-term "***applicable federal rate***" (2.39%) in effect on the date hereof for loans of such maturity as determined by Section 1274(d) of the Internal Revenue Code, per annum from the date hereof until maturity, compounded annually on the anniversary of the date of this Note. Interest shall be calculated at a daily rate equal to 1/365th (1/366 in a leap year) of the rate per annum, shall be charged and collected on the actual number of days elapsed, and shall be payable on demand of the Payee.

2. Payment of Principal and Interest. The accrued interest and principal of this Note shall be due and payable on demand.

3. Prepayment Allowed; Renegotiation Discretionary. Maker may prepay in whole or in part the unpaid principal or accrued interest of this Note. Any payments on this Note shall be applied first to unpaid accrued interest hereon, and then to unpaid principal hereof.

4. Acceleration Upon Default. Failure to pay this Note or any installment hereunder as it becomes due shall, at the election of the holder hereof, without notice, demand, presentment, notice of intent to accelerate, notice of acceleration, or any other notice of any kind which are hereby waived, mature the principal of this Note and all interest then accrued, if any, and the same shall at once become due and payable and subject to those remedies of the holder hereof. No failure or delay on the part of Payee in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

5. Waiver. Maker hereby waives grace, demand, presentment for payment, notice of nonpayment, protest, notice of protest, notice of intent to accelerate, notice of acceleration and all other notices of any kind hereunder.

6. Attorneys' Fees. If this Note is not paid at maturity (whether by acceleration or otherwise) and is placed in the hands of an attorney for collection, or if it is collected through a bankruptcy court or any other court after maturity, the Maker shall pay, in addition to all other amounts owing hereunder, all actual expenses of collection, all court costs and reasonable attorneys' fees and expenses incurred by the holder hereof.

7. Limitation on Agreements. All agreements between Maker and Payee, whether now existing or hereafter arising, are hereby limited so that in no event shall the amount paid, or agreed to be paid to Payee for the use, forbearance, or detention of money or for the payment or performance of any covenant or obligation contained herein or in any other document evidencing, securing or pertaining to this Note, exceed the maximum interest rate allowed by law. The terms and provisions of this paragraph shall control and supersede every other provision of all agreements between Payee and Maker in conflict herewith.

8. Governing Law. This Note and the rights and obligations of the parties hereunder shall be governed by the laws of the United States of America and by the laws of the State of Texas, and is performable in Dallas County, Texas.

MAKER:

FRANK WATERHOUSE

EXHIBIT 58

Highland Capital Management, L.P. - Cash
Next 13 Weeks Commencing December 14, 2020
(in thousands)
CONFIDENTIAL DRAFT FOR ILLUSTRATIVE PURPOSES ONLY - NOT FINAL OR APPROVED FOR FURTHER DISTRIBUTION

	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Week beginning	**12/7**	**12/14**	**12/21**	**12/28**	**1/4**	**1/11**	**1/18**	**1/25**	**2/1**	**2/8**	**2/15**	**2/22**	**3/1**	**3/8**
Beginning unrestricted operating cash	$ 12,537	$ 11,948	$ 10,684	$ 11,051	$ 11,771	$ 11,048	$ 11,188	$ 11,353	$ 10,486	$ 11,445	$ 10,860	$ 10,279	$ 8,145	$ 8,381
Operating Receipts														
Management fees														
CLOs	-	-	-	-	-	-	-	-	676	-	-	-	-	-
Hedge funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Private Equity, PetroCap, Port Co's	-	-	-	-	63	-	-	-	-	-	270	-	-	-
Separate accounts	-	-	776	-	-	-	-	750	165	-	579	-	-	-
Management fees - managed funds	$ -	$ -	$ 776	$ -	$ 63	$ -	$ -	$ 750	$ 841	$ -	$ 849	$ -	$ -	$ -
HCMFA / NPA investment support	-	-	668	-	-	668	-	-	668	-	-	-	668	-
Shared services receipts	39	-	168	385	-	168	290	135	-	290	60	15	-	-
Intercompany and shared services revenue	39	$ -	$ 836	$ 385	$ -	$ 836	$ 290	$ 135	$ 668	$ 290	$ 60	$ 15	$ 668	$ -
Fund reimbursements	-	-	60	-	-	-	100	-	-	-	100	-	-	-
Interest receipts on notes receivable	-	-	-	2,051	-	-	-	-	-	-	-	-	-	-
Dividend receipts (unencumbered)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other miscellaneous receipts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other receipts	$ -	$ -	$ 60	$ 2,051	$ -	$ -	$ 100	$ -	$ -	$ -	$ 100	$ -	$ -	$ -
Total operating receipts	**$ 39**	**$ -**	**$ 1,672**	**$ 2,436**	**$ 63**	**$ 836**	**$ 390**	**$ 885**	**$ 1,509**	**$ 290**	**$ 1,009**	**$ 15**	**$ 668**	**$ -**
Compensation and benefits														
Payroll, benefits, and taxes + exp reimb	(408)	(31)	-	(556)	-	(471)	-	(561)	-	(535)	-	(625)	-	(460)
Cash bonuses	-	-	-	-	-	-	-	-	-	-	-	(3,394)	-	-
Total compensation and benefits	$ (408)	$ (31)	$ -	$ (556)	$ -	$ (471)	$ -	$ (561)	$ -	$ (535)	$ -	$ (4,019)	$ -	$ (460)
General overhead														
Outside legal (ordinary course)	(62)	-	(499)	-	(560)	-	-	(560)	-	-	-	(560)	-	-
Independent director fees	-	-	-	(210)	-	-	-	-	(210)	-	-	-	(210)	-
General overhead - critical vendors (pre-petition)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General overhead - post-petition vendors	(158)	(1,233)	(275)	(275)	(225)	(225)	(225)	(225)	(340)	(340)	(340)	(340)	(222)	(222)
Total general overhead	$ (220)	$ (1,233)	$ (774)	$ (485)	$ (785)	$ (225)	$ (225)	$ (785)	$ (550)	$ (340)	$ (340)	$ (900)	$ (432)	$ (222)
Net change in cash due to operating activity	**(589)**	**(1,264)**	**898**	**1,395**	**(723)**	**140**	**165**	**(461)**	**959**	**(585)**	**669**	**(4,904)**	**236**	**(682)**
Re-org related - payments direct to professionals														
Debtor bankruptcy counsel	-	-	-	(300)	-	-	-	(720)	-	-	-	(720)	-	-
Debtor FA/CRO	-	-	-	-	-	-	-	(300)	-	-	-	(300)	-	-
Compensation consultant	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Committee counsel	-	-	(359)	(339)	-	-	-	(600)	-	-	-	(600)	-	-
Committee FA	-	-	(172)	(138)	-	-	-	(480)	-	-	-	(480)	-	-
Claims / noticing agent	-	-	-	-	-	-	-	(30)	-	-	-	(30)	-	-
Regulatory & compliance counsel	-	-	-	(100)	-	-	-	(100)	-	-	-	(100)	-	-
Mediation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
US Trustee	-	-	-	-	-	-	-	(175)	-	-	-	-	-	-
Total re-org related	$ -	$ -	$ (531)	$ (877)	$ -	$ -	$ -	$ (2,405)	$ -	$ -	$ -	$ (2,230)	$ -	$ -
Net change in cash from ops + reorg costs	**(589)**	**(1,264)**	**367**	**518**	**(723)**	**140**	**165**	**(2,866)**	**959**	**(585)**	**669**	**(7,134)**	**236**	**(682)**
Investing cash flows (principal only on notes)														
Jefferies prime brokerage, net or Select Equity Fund funding	-	-	-	-	-	-	-	2,000	-	-	-	5,000	-	-
Third party fund capital call obligations	-	-	-	-	-	-	-	-	-	-	(1,650)	-	-	-
Third party fund expected distributions	-	-	-	-	-	-	-	-	-	-	400	-	-	-
Highland Capital Management Korea (capital call funding)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Multi Strategy Credit Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Highland Capital Management Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from outstanding notes	-	-	-	202	-	-	-	-	-	-	-	-	-	-
Divs, paydowns, misc from non-PB assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchases of other investments (non-PB)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from other investments (non-PB)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net change in cash due to investing activities	**-**	**-**	**-**	**202**	**-**	**-**	**-**	**2,000**	**-**	**-**	**(1,250)**	**5,000**	**-**	**-**
Financing cash flows														
Required equity distributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity contributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Existing debt paydowns	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net change in cash due to financing activities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Ending unrestricted operating cash	**$ 11,948**	**$ 10,684**	**$ 11,051**	**$ 11,771**	**$ 11,048**	**$ 11,188**	**$ 11,353**	**$ 10,486**	**$ 11,445**	**$ 10,860**	**$ 10,279**	**$ 8,145**	**$ 8,381**	**$ 7,699**

D-CNL003810
Appx. 00882

EXHIBIT 59

TO:	Board of Trustees or Board of Directors (as the case may be) (collectively, the "Board") of Highland Funds I, Highland Funds II, Highland Income Fund, Highland Global Allocation Fund, NexPoint Strategic Opportunities Fund, NexPoint Real Estate Strategies Fund and NexPoint Capital, Inc.
FROM:	Highland Capital Management Fund Advisors, L.P., NexPoint Advisors, L.P. and NexPoint Securities, Inc.
RE:	Supplemental 15(c) Information Request
DATE:	October 23, 2020

Pursuant to your supplemental request dated October 2, 2020, Highland Capital Management Fund Advisors, L.P. ("HCMFA"), NexPoint Advisors, L.P. ("NexPoint", and with HCMFA, each, an "Adviser", and together, the "Advisers") and NexPoint Securities, Inc. ("NSI" the "Distributor") submit the following supplemental information to the Board in order to assist the Board in fulfilling its obligations under Section 15(c) of the Investment Company Act of 1940, as amended (the "1940 Act"), and to assist in the Board's consideration of the investment advisory, and other contractual arrangements, for the funds listed on Appendix A (each, a "Fund" and, collectively, the "Funds"). References to the 2020 15(c) Response dated August 13, 2020 and the supplemental response dated September 17-18, 2020 are referred to as the "2020 15(c) Response" and "2020 Supplemental 15(c) Response", respectively.

Your requests have been noted below, each of which is followed by our response. Unless otherwise specified, reference documents are located on Director's Desk at the following location: Home > Documents > Corporate Documents > 15c Reference Documents.

A. ***Nature, Extent and Quality of Services***

1. Please provide, to the extent practicable, the contingency plans with respect to the services provided under the Shared Services Agreements in the event that the outcome of the HCMLP bankruptcy proceedings were to impact the current servicing structure. For example, has the Advisers considered any outside service providers if necessary?

   Response: As a result of the Highland Capital Management, L.P. ("HCMLP") bankruptcy, NexPoint's senior management's plan as a backup/contingency plan is to extend employment offers to the vast majority of HCMLP's employees by December 31, 2020. This will help ensure that there is no disruption in services to the Funds. Once we have further details of this we will advise. In the interim, the plan is to continue with existing shared services.

   Representatives of HCMLP and NexPoint will be available to discuss the structure of these contingency plans, relevant employees, and communications

to current employees regarding these matters. Representatives of HCMLP and NexPoint are working to facilitate the shared use of and/or transfer of services such as the intranet, shared computer drives, and third-party contracts.

2. Are there any material outstanding amounts currently payable or due in the future (*e.g.*, notes) to HLCMLP by HCMFA or NexPoint Advisors or any other affiliate that provide services to the Funds?

Response: As of June 30, 2020, $23,683,000 remains outstanding to HCMLP and its affiliates from NexPoint and $12,286,000 remains outstanding to HCMLP from HCMFA. The Note between HCMLP and NexPoint comes due on December 31, 2047. The earliest the Note between HCMLP and HCMFA could come due is in May 2021. All amounts owed by each of NexPoint and HCMFA pursuant to the shared services arrangement with HCMLP have been paid as of the date of this letter. The Adviser notes that both entities have the full faith and support of James Dondero.

3. The Board notes the provision of the updated list of current co-investments provided by HCMFA/NexPoint Advisors and the Advisers' discussion, including the senior-level team in place, to address any potential conflicts of interest matters. With respect to the compliance function, please confirm that the Funds' Chief Compliance Officer overall will continue in his usual role with respect to the Funds. Are there any other potential conflicts outside of the specific co-investment matters identified?

Response: The Advisers confirm that the Funds' Chief Compliance Officer overall will continue in his usual role with respect to the Funds. As of October 14, 2020, the Funds' Chief Compliance Officer is an employee of NexPoint. Please see Exhibit A for a list of current co-investments and cross-held positions where a future conflict may arise together with Exhibit B for the list of non-HCMLP employees available to assist the Board in any future conflicts.

Exhibit A

Co-Investment Analysis

Highland Capital Management, LP ("HCMLP")
Condensed Co-Investment Analysis
As of 9/30/20

Condensed Co-Investments [1]

	Investment	HCMLP MV	Funds Managed by HCMLP MV	Retail Funds	Non-HCMLP Investment Coverage
1	Metro-Goldwyn-Mayer Inc. Class A Common Stock	$13,085,369	$418,019,027	$61,820,908	Dondero
2	CCS Medical, Inc. (Chronic Care) Loan 1st Lien @ PRIME 7% 7/31/2021	-	121,166,994	47,510,599	Dondero
3	TerreStar Corporation Term Loan A @ LIBOR 11% 2/28/2022	-	49,742,043	40,159,485	Dondero
4	VST US Equity	-	41,904,280	24,381,982	Sowin
5	NXRT	10,799,003	2,228,410	21,256,955	McGraner
6	Grayson CLO, Ltd. Class II Preference Shares	-	2,201,500	18,861,500	Sowin
7	NHT/U CN	2,028,793	-	18,524,594	McGraner
8	NHF	2,208,872	2,954,619	15,808,648	Dondero
9	Advantage Sales & Marketing Inc. Term Loan (Second Lien) @ LIBOR 6.5% 7/25/2022	-	1,940,140	13,784,695	Sowin
10	Procera Networks, Inc. (aka Sandvine Corp) Initial Term Loan (First Lien) @ LIBOR 4.5% 10/3	-	1,367,373	13,681,487	Sowin
11	Gruden Acquisition, Inc. (aka Quality Distribution) ITL (First Lien) @ LIBOR 5.5% 8/18/2022	-	2,568,463	11,124,738	Sowin
12	Westchester CLO, Ltd Class I Preference Shares 144A	-	3,373,333	10,888,813	Sowin
13	HRTX	-	81,510	10,686,168	Dondero
14	Vistra Energy Corp. (fka TCEH Corp.) TXU TRA rights	-	3,494,825	10,476,054	Sowin
15	American Banknote Common	693,467	-	1,843,371	Dondero
16	American Airlines Escrow	154,650	630,365	1,444,839	Dondero
17	Ginn LA Conduit Lender, Inc. 1st Lien A CL Deposit @ PRIME 4.5% 6/8/2011	68,860	812,716	846,955	Sowin
18	TerreStar Corporation TL C @ LIBOR 11% 2/28/2022	-	25,418	553,282	Dondero
19	CCS Medical, Inc. (Chronic Care) Common	-	6,008	5,797	Dondero
	Sub-Total	**$29,039,013**	**$652,517,024**	**$323,660,869**	

Additional HCMLP Ownership of Retail Funds (non-co-investments) [2]

Investment	HCMLP MV	Retail Fund MV	Funds Managed by HCMLP MV
Highland Opportunistic Credit Fund (HNRZX)	$2,911,923	-	-
NexPoint Real Estate Strategies Fund (NRSZX)	663,982	-	-
Sub-Total	**$3,575,905**	**$0**	**$0**

Footnote:
1 - Listing includes the following: 1) all investments held by both HCMLP and retail funds, regardless of materiality 2) investments for which retail funds hold $10 million or greater in the aggregate and are also held by funds advised by HCMLP 3) investments for which retail funds hold ownership less than $10 million in the aggregate, the position is private and fair valued, and are also held by funds advised by HCMLP.
2 - 'Additional HCMLP Ownership of Retail Funds' does not reflect other immaterial holdings of investments below $5,000.

Highland Capital Management, LP ("HCMLP")
Co-Investment Analysis
As of 9/30/20

Co-Investments, excluding holdings with zero market value

#	Investment	HCMLP MV	Funds Managed by HCMLP MV	Retail Funds
1	Metro-Goldwyn-Mayer Inc. Class A Common Stock	$13,085,369	$418,019,027	$61,820,908
2	CCS Medical, Inc. (Chronic Care) Loan 1st Lien @ PRIME 7% 7/31/2021	-	121,166,994	47,510,599
3	TerreStar Corporation Term Loan A @ LIBOR 11% 2/28/2022	-	49,742,043	40,159,485
4	VST US Equity	-	41,904,280	24,381,982
5	NXRT	10,799,003	2,228,410	21,256,955
6	Grayson CLO, Ltd. Class II Preference Shares	-	2,201,500	18,861,500
7	NHT/U CN	2,028,793	-	18,524,594
8	NHF	2,208,872	2,954,619	15,808,648
9	Advantage Sales & Marketing Inc. Term Loan (Second Lien) @ LIBOR 6.5% 7/25/2022	-	1,940,140	13,784,695
10	Procera Networks, Inc. (aka Sandvine Corp) Initial Term Loan (First Lien) @ LIBOR 4.5% 10/31/2025	-	1,367,373	13,681,487
11	Gruden Acquisition, Inc. (aka Quality Distribution) ITL (First Lien) @ LIBOR 5.5% 8/18/2022	-	2,568,463	11,124,738
12	Westchester CLO, Ltd Class I Preference Shares 144A	-	3,373,333	10,888,813
13	HRTX	-	81,510	10,686,168
14	Vistra Energy Corp. (fka TCEH Corp.) TXU TRA rights	-	3,494,825	10,476,054
15	Traverse Midstream Partners LLC Advance @ LIBOR 5.5% 9/27/2024	-	25,916,705	9,945,051
16	VM Consolidated, Inc. (aka American Traffic Solutions) B-1 1st Lien Non-ext @ LIBOR 3.25% 2/28/2025	-	2,719,702	9,594,505
17	Edelman Financial Center, LLC, The (fka Flight Debt Merger Sub Inc.) Initial Term Loan (Second Lien) @ LIBOR 6.75% 7/20/2026	-	125,340	9,078,334
18	Forest City Enterprises, L.P. Replacement TL @ LIBOR 3.5% 12/8/2025	-	2,222,324	8,889,297
19	Avaya Inc. B TL @ LIBOR 4.25% 12/15/2024	-	1,357,685	8,802,760
20	MPMQ Appraisal Rights Claims	-	527,460	8,224,455
21	USS Ultimate Holdings, Inc. (aka United Site Services, Inc.) Initial Term Loan (First Lien) @ LIBOR 3.75% 8/25/2024	-	2,877,263	6,691,414
22	PSC Industrial Holdings Corp. Term Loan (First Lien) @ LIBOR 3.75% 10/11/2024	-	3,685,775	6,511,970
23	EnergySolutions, LLC (aka Envirocare of Utah, LLC) Initial Term Loan @ LIBOR 3.75% 5/9/2025	-	7,194,271	5,678,112
24	Truck Hero, Inc. Initial TL 2nd Lien @ LIBOR 8.25% 4/21/2025	-	645,557	5,561,471
25	Envision Healthcare Corporation Initial Term Loan @ LIBOR 3.75% 10/10/2025	-	2,854,870	5,502,657
26	AERI	-	35,310	5,211,756
27	MDPK 2014-15A Float - 01/2026 - DR - 55818WAG0 @ LIBOR 5.4400 1/27/2026	-	1,249,500	4,774,875
28	Brentwood CLO Ltd Class II Preference Shares	-	7,424,000	4,416,000
29	Jo-Ann Stores, LLC Initial Loan @ LIBOR 5% 10/20/2023	-	2,354,854	4,384,100
30	Advantage Sales & Marketing Inc. Initial Term Loan (First Lien) @ LIBOR 3.25% 7/23/2021	-	1,896,829	3,571,805
31	Radnet Management, Inc. T B-1 L @ LIBOR 3.75% 6/30/2023	-	1,601,339	3,479,728
32	Fort Dearborn Holding Company, Inc. Initial Term Loan (First Lien) @ LIBOR 4% 10/19/2023	-	1,394,305	3,406,180
33	Sound Inpatient Physicians, Inc. Initial Term Loan (Second Lien) @ LIBOR 6.75% 6/26/2026	-	326,460	3,264,600
34	Liberty CLO, Ltd. Preferred	-	8,339,310	2,989,000
35	UDFI	-	1,291,306	2,801,645
36	Auris Luxembourg III S.a r.l. Facility B2 @ LIBOR 3.75% 2/27/2026	-	1,891,886	2,364,858
37	BIO	-	171,133	2,319,570
38	Dayco Products LLC - (Mark IV Industries, Inc.) Term Loan @ LIBOR 4.25% 5/19/2023	-	1,587,518	2,121,554
39	Rockwall CDO, Ltd. Preferred Shares	-	5,211,000	2,026,500
40	AVYA	-	30,877,250	1,911,598
41	RWIC NOT LISTED	-	579,000	1,852,800
42	American Banknote Common	693,467	-	1,843,371
43	TCW 2019-2A D2A Float - 10/02032 - 87242BAS9 @ 4.89 10/20/2032	-	1,250,000	1,750,000
44	Red River CLO, Ltd. Red River CLO	-	3,797,722	1,744,900
45	American Airlines Escrow	154,650	630,365	1,444,839
46	Refinitiv US Holdings Inc. (fka Financial & Risk US Holdings, Inc.) Initial Dollar Term Loan @ LIBOR 3.25% 10/1/2025	-	1,950,070	1,231,425
47	Scientific Games International, Inc. Initial Term B-5 Loan @ LIBOR 2.75% 8/14/2024	-	3,715,025	1,213,050
48	ACIS 2015-6A Zero Coupon - 05/2027 - SUB - 004524AD6 @ Zero Coupon 0.0000 5/1/2027	-	8,296,000	1,200,000
49	CIFC 2015-5A DR Float - 10/02027 - 12550NAJ7 @ 5.55 10/25/2027	-	1,109,375	1,198,125
50	General Nutrition Centers, Inc. FILO Term Loan @ PRIME 8% 12/31/2022	-	487,190	1,148,178
51	Change Healthcare Holdings, LLC closing date TL @ LIBOR 2.5% 3/1/2024	-	2,709,671	991,845
52	CIFC 2016-1A D2R Float - 10/02031 - 17180TAW2 @ 4.43 10/21/2031	-	980,000	980,000
53	TMO	-	201,775	927,192
54	ACIS 2015-6A Float - 05/2027 - D - 00452PAR8 @ LIBOR 3.7700 5/1/2027	-	1,810,000	905,000
55	Edelman Financial Center, LLC, The (fka Flight Debt Merger Sub Inc.) Initial Term Loan (First Lien) @ LIBOR 3% 7/21/2025	-	3,329,415	903,218
56	AHT1 2018-KEYS E Float - 05/02035 - 04410CAN9 @ 4.15 05/15/2035	-	695,663	850,255
57	ABERD	-	905,975	847,525
58	Ginn LA Conduit Lender, Inc. 1st Lien A CL Deposit @ PRIME 4.5% 6/8/2011	68,860	812,716	846,955
59	Bausch Health Companies Inc. (fka Valeant Pharmaceuticals International, Inc.) Initial Term Loan @ LIBOR 3% 6/2/2025	-	3,010,042	825,922
60	CSC Holdings, LLC (fka CSC Holdings Inc. (Cablevision)) March 2017 Refinancing Term Loan @ LIBOR 2.25% 7/17/2025	-	1,142,030	824,572
61	Hub International Limited Initial Term Loan @ LIBOR 3% 4/25/2025	-	1,270,064	819,121
62	Nielsen Finance LLC (VNU, Inc.) Class B-4 Term Loan @ LIBOR 2% 10/4/2023	-	480,085	813,503
63	PRTK	-	100,626	757,508
64	MPH Acquisition Holdings LLC Initial Term Loan @ LIBOR 2.75% 6/7/2023	-	3,767,027	739,421
65	VICI Properties 1 LLC Term B Loan @ LIBOR 1.75% 12/20/2024	-	969,035	726,776
66	McAfee, LLC Term B USD Loan @ LIBOR 3.75% 9/30/2024	-	1,469,387	722,848
67	IRB Holding Corp. (aka Arby's / Buffalo Wild Wings) 2020 Replacement Term B Loan @ Libor 2.75% 2/5/2025	-	531,087	716,184
68	Global Medical Response, Inc. (aka Air Medical) 2018 Term Loan @ LIBOR 3.25% 4/28/2022	-	969,179	699,346
69	CityCenter Holdings, LLC Term B Loan @ LIBOR 2.25% 4/18/2024	-	344,250	694,346
70	Misys Limited (aka Almonde/Tahoe, Finastra USA) Dollar Term Loan (First Lien) @ LIBOR 3.5% 6/13/2024	-	920,265	693,200
71	Golden Nugget, Inc. (aka Landry's Inc.) TL @ LIBOR 2.5% 10/4/2023	-	383,374	671,846
72	H.B. Fuller Company Commitment @ LIBOR 2% 10/20/2024	-	250,488	638,664
73	Lightstone Holdco LLC Refinancing Term B Loan @ LIBOR 3.75% 1/30/2024	-	4,262,832	616,367
74	ACHC	-	73,700	589,600
75	Crown Finance US, Inc. (aka Cineworld Group plc) Initial Dollar Tranche Term Loan @ LIBOR 2.5% 2/28/2025	-	11,999,814	572,658
76	Calpine Corporation Term Loan (2015) @ LIBOR 2.25% 1/15/2024	-	375,085	567,158
77	TerreStar Corporation TL C @ LIBOR 11% 2/28/2022	-	25,418	553,282
78	TransDigm Inc. Tranche E Refinancing Term Loan @ LIBOR 2.25% 5/30/2025	-	6,149,465	542,437
79	Tronox Finance LLC Initial Dollar Term Loan (First Lien) @ LIBOR 3% 9/23/2024	-	3,327,701	493,305
80	Solera, LLC (Solera Finance, Inc.) Dollar TL @ LIBOR 2.75% 3/3/2023	-	446,555	490,314
81	AlixPartners, LLP 2017 Refinancing Term Loan @ LIBOR 2.5% 4/4/2024	-	3,254,084	483,887
82	iHeartCommunications, Inc. (fka Clear Channel Communications, Inc.) 6.375% - 05/2026 - 45174HBC0 FIX 6.375% 5/1/2026	-	1,446	482,002
83	Fieldwood Energy LLC Closing Date Loan (First Lien) @ LIBOR 5.25% 4/11/2022	-	10,941,771	479,396
84	HLF 1X Floating - 08/2014 - C1 - 43037QAE9 @ LIBOR 0.0000 8/2/2018	-	318,583	477,874
85	Ineos US Finance LLC New 2024 Dollar Term Loan @ LIBOR 2% 4/1/2024	-	2,131,748	474,805
86	CGMS 2019-4A D Float - 01/02033 - 14317WAA6 @ 7.65 01/15/2033	-	930,500	465,250
87	BJ's Wholesale Club, Inc. Tranche B Term Loan (First Lien) @ LIBOR 2% 2/3/2024	-	515,535	460,180
88	Titan Acquisition Limited (aka Husky IMS International Ltd.) Initial Term Loan @ LIBOR 3% 3/28/2025	-	923,108	459,071
89	Plantronics, Inc. Initial Term B Loan @ LIBOR 2.5% 7/2/2025	-	12,145,824	376,874
90	SS&C Technologies Holdings, Inc. Term B-5 Loan @ LIBOR 2.25% 4/16/2025	-	952,120	264,538
91	Berry Global, Inc. (fka Berry Plastics Corporation) Term W Loan @ LIBOR 2% 10/1/2022	-	339,055	248,184
92	Applied Systems, Inc. Closing Date Term Loan (First Lien) @ LIBOR 3.25% 9/19/2024	-	1,693,433	245,795
93	SolarWinds Holdings, Inc. 2018 Refinancing Term Loan (First Lien) @ LIBOR 2.75% 2/5/2024	-	956,532	243,383
94	VAHA 2004-1A Variable - 08/2012 - 91914QAA4 @ Variable 0.0000 8/1/2012	-	375,000	225,000
95	SRC	-	1,212	220,219
96	COLL	-	62,398	166,456
97	Texas Competitive Electric Holdings Company LLC (TXU) Escrow Loan Extended @ LIBOR 0%	-	2,079	151,087
98	AAMRQ escrow Common Stock	-	57,400	123,000
99	Tecton 9 PERP	-	467,201	114,573
100	ACRG/A/U CN	-	41,887	111,422
101	NRG	-	26,498	83,767
102	FGI Operating Company, LLC Common	-	51,252	68,922
103	Fieldwood Energy LLC Common1	-	15,420	56,288
104	ACRG/B/U CN	-	15,022	39,960
105	Lightstone Holdco LLC Refinancing Term C Loan @ LIBOR 3.75% 1/30/2024	-	240,430	34,764
106	SMTA (Delisted 01/02/2020)	-	93,852	7,880
107	CCS Medical, Inc. (Chronic Care) Common	-	6,008	5,797
	Total	**$29,039,013**	**$878,908,335**	**$495,707,848**

Additional HCMLP Ownership of Retail Funds (non-co-investments)[1]

Investment	HCMLP MV	Retail Fund MV	Funds Managed by HCMLP MV
Highland Opportunistic Credit Fund (HNRZX)	$2,911,923	-	-
NexPoint Real Estate Strategies Fund (NRSZX)	663,982	-	-
Total	**$3,575,905**	**0.00**	**$0**

Footnote:
1 - 'Additional HCMLP Ownership of Retail Funds' does not reflect other immaterial holdings of investments below $5,000.

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Exhibit B

Non-HCMLP Employees

Name	Role	Current Title	Employed By
Jim Dondero	Senior Investment Team Member	Partner	NPA
Jason Post	Chief Compliance Officer	Chief Compliance Officer	NPA
Joe Sowin	Senior Investment Team Member	Co-CIO and Head of Global Equity Trading	HCMFA
Brad Heiss	Senior Investment Team Member	Managing Director	HCMFA
Matt McGraner	Senior Investment Team Member	Managing Director	NPA
Dustin Norris	Fund Officer/Liaison	Head of Distribution and Chief Product Strategist	NPA
DC Sauter	Legal	General Counsel	NPA
Eric Holt	Compliance	Chief Compliance Officer, Affiliated Broker Dealers	NSI
David Willmore	Accounting/Operations	Senior Manager, Real Estate Accounting	NXRT
Paul Richards	Valuation	Director, Real Estate	NPA
Jackie Graham	PR/Marketing	Investor Relations Manager	NPA

HCMFA Highland Capital Management Fund Advisors, L.P.
NPA NexPoint Advisors, L.P.
NSI NexPoint Securities, Inc.
NXRT NexPoint Residential Trust, Inc.

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Appendix A

Open-End Funds

Highland Funds I:

1. Highland Healthcare Opportunities Fund
2. Highland/iBoxx Senior Loan ETF
3. Highland Opportunistic Credit Fund (*in liquidation*)
4. Highland Merger Arbitrage Fund

Highland Funds II:

5. Highland Small-Cap Equity Fund
6. Highland Socially Responsible Equity Fund
7. Highland Fixed Income Fund *(sub-advised)*
8. Highland Total Return Fund *(sub-advised)*

Closed-End Funds

9. NexPoint Capital, Inc.
    a. BDC REIT Sub, LLC (*REIT Subsidiary*)
10. NexPoint Strategic Opportunities Fund
    a. NexPoint Real Estate Opportunities, LLC (*REIT Subsidiary*)
    b. NexPoint Real Estate Capital, LLC (*REIT Subsidiary*)
11. Highland Income Fund
    a. HFRO Sub, LLC (*Credit Subsidiary)*
    b. NFRO REIT Sub, LLC (*REIT Subsidiary*)
12. Highland Global Allocation Fund
    a. GAF REIT, LLC (*REIT Subsidiary*)

Interval Funds:

13. NexPoint Real Estate Strategies Fund
    a. NRESF REIT Sub, LLC (*REIT Subsidiary*)

EXHIBIT 60

From: Kristin Hendrix
Sent: Saturday, August 29, 2020 2:47 PM
To: Jim Dondero <JDondero@HighlandCapital.com>
Cc: Frank Waterhouse <FWaterhouse@HighlandCapital.com>
Subject: 7/31/2020 HCMLP Requests

Hi Jim,

Please see attached data you had requested for HCMLP.

- 7/31/2020 SOI
- 7/31/2020 affiliate notes
- Oct 2019 – July 2020 equity balances

Please let us know if you have any questions or need anything else.

Thanks,
Kristin

Kristin Hendrix, CPA | Assistant Controller

HIGHLAND CAPITAL MANAGEMENT

300 Crescent Court | Suite 700 | Dallas, Texas 75201
O: 972.628.4127 | F: 972.628.4147
khendrix@highlandcapital.com | www.highlandcapital.com

Highland Capital Management, LP
Schedule of Investments, net

Fund	Ticker		7/31/2020 FMV
INVESTMENTS, AT FAIR VALUE:			
HEDGE FUNDS:			
Multi-Strategy Credit Fund [4]		$	7,026,019
Highland Dynamic Income Fund			-
Highland Select Equity Fund - Jefferies		$	-
SUBTOTAL			7,026,019
PRIVATE EQUITY FUNDS:			
Highland Select Equity Fund - PE [4]		$	95,472,589
Restoration Capital Partners [4]			27,626,237
Petrocap Partners II [1]			10,142,249
Petrocap Partners III [1]			2,725,623
Highland CLO Funding [1]			269,275
SUBTOTAL			136,235,973
CORPORATE SECURITIES - PUBLIC:			
Public securities - Jefferies account, net of borrow [3]			20,949,643
NexPoint Hospitality Trust	NHT (TSX)		4,458,885
NexPoint Real Estate Strategies Fund (custodied at AST)	NRSZX		225,302
NexPoint Residental Trust (custodied at Maxim)	NXRT		-
NexPoint Strategic Opportunities Fund (custodied at Maxim)	NHF		-
Minerva Neuroscience Inc.	NERV		-
SUBTOTAL			25,633,830
CORPORATE SECURITIES - PRIVATE/OTC:			
MGM Common Stock [2]			8,085,367
JHT Holdings, Inc. Common			5,102,801
Cornerstone Common			2,967,377
NHT Holdco			2,069,886
HE Capital Asante, LLC Loan C			1,215,531
American Banknote Corp.			837,564
Goldfield Ranch Realty Holdings, LLC Loan			832,048
American Airlines Escrow			113,410
BEA CBO			100,000
Ginn LA Conduit Lender, Inc. 1st Lien			68,860
Goldfield Ranch Realty Holdings, LLC Incremental TL			66,516
Turtle Bay Units			56,934
Progenics Pharmaceuticals Contingent Rights			42,560
Carey International, Inc. Term Loan			268,095
Romacorp Common Stock			120,796
OmniMax International, Inc. Common			171
SUBTOTAL			21,947,915
OTHER:			
Little Terrell Land			398,450
SUBTOTAL			398,450
TOTAL INVESTMENTS, AT FAIR VALUE		**$**	**191,242,187**
SUBSIDIARIES:			
Highland Capital Management Korea Limited		$	968,322
Maple Avenue Holdings			586,989
Penant, Ltd.			417,366
SUBTOTAL		$	1,972,678
TOTAL INVESTMENTS		**$**	**193,214,865**

(1) 7/31/20 FMV carried forward from 3/31/20, as that is the most recent available information
(2) MVs represents a value, net of $5.2mm Frontier borrow
(3) MV represents value of Jefferies account
(4) 7/31/20 FMV is as of 6/30/20, as that is the most recent available information

HCMLP Equity
10/31/19 - 7/31/20
(all values in millions)

10/31/19	399,573
11/30/19	411,674
12/31/19	349,812
1/31/20	347,150
2/29/20	323,569
3/31/20	181,954
4/30/20	182,351
5/31/20	195,713
6/30/20	199,105
7/31/20	247,665

HCMLP Notes Receivable
As of 7/31/2020

NexPoint Advisors	$	23,846,944	30 yr Amort (issued 2017)
Dugaboy		17,788,532	30 yr Amort (issued 2017)
Highland Capital Management Services		6,677,529	30 yr Amort (issued 2017)
HCRE		5,938,670	30 yr Amort (issued 2017)
Trussway		1,004,993	Due upon maturity - 11/1/2021
SSP Holdings, LLC		2,037,898	Due upon maturity - 11/22/2022
Siepe		2,334,606	Equity conversion option
Highland Capital Management Fund Advisors		10,530,971	Demand
James Dondero		8,911,977	Demand
Multi-Strategy Credit Fund		1,269,000	Demand
HCRE		4,859,929	Demand
Highland Select Equity Fund		3,000,000	Demand
Highland Capital Management Korea		3,760,000	Due upon maturity - 4/21/2037
Highland Capital Management Services		934,331	Demand
Total Notes Receivable	**$**	**92,895,380**	
Demand		**29,506,208**	

EXHIBIT 61

INTENTIONALLY

OMITTED

EXHIBIT 62

INTENTIONALLY

OMITTED

EXHIBIT 63

Highland Capital Management, L.P.

(A Delaware Limited Partnership)

Consolidated Financial Statements
With Report of Independent Auditors
December 31, 2008

Highland Capital Management, L.P.
Contents
December 31, 2008

Report of Independent Auditors

To the General and Limited Partners of
Highland Capital Management, L.P

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of changes in partners' capital and of cash flows (hereinafter referred to as the "financial statements") present fairly, in all material respects, the consolidated financial position of Highland Capital Management, L.P. (the "Partnership") and its subsidiaries at December 31, 2008, and the consolidated results of their operations and their consolidated cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental unconsolidated balance sheet and unconsolidated statement of income are presented for purposes of additional information, and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

July 21, 2009

Highland Capital Management, L.P.
Consolidated Balance Sheet
December 31, 2008

(in thousands of dollars)

Assets		
Cash and cash equivalents	$	53,230
Restricted cash		358,877
Investments, at fair value (cost $5,457,411)		2,338,759
Unrealized gains on derivative contracts, at fair value (proceeds $3,887)		8,974
Equity method investees		4,977
Management and incentive fees receivable		20,120
Due from brokers		145,311
Other assets		86,708
Deferred incentive fees receivable		25,997
Purchased investment management contracts		24,000
Goodwill and other intangible assets, net		25,474
Fixed assets and leasehold improvements, net of accumulated depreciation of $11,578		131,555
Total assets	$	3,223,982
Liabilities and Partners' Capital		
Liabilities		
Accounts payable	$	18,498
Securities sold, not yet purchased, at fair value (proceeds $60,094)		71,831
Unrealized losses on derivative contracts at fair value (proceeds $3,319)		261,815
Obligations to return capital		161,882
Due to brokers		464,252
Due to brokers for securities purchased not yet settled		181,938
Accrued and other liabilities		191,880
Secured borrowing		127,868
Debt and notes payable		397,822
Long-term incentive plan		6,945
Total liabilities		1,884,731
Minority interest		1,338,461
Commitments (Note 13)		
Partners' capital		790
Total liabilities, minority interest and partners' capital	$	3,223,982

The accompanying notes are an integral part of these consolidated financial statements.

Highland Capital Management, L.P.
Consolidated Statement of Income
Year Ended December 31, 2008

(in thousands of dollars)

Revenue		
Management fees	$	204,917
Incentive fees/allocations		870
Interest and investment income		424,322
Other income		46,144
Total revenue		676,253
Expenses		
Compensation and benefits		4,029
Professional fees		40,475
Investment and research consulting		2,384
Amortization and depreciation		12,026
Interest expense		144,244
Net depreciation on deferred incentive fees		150,281
Other expenses		87,150
Total expenses		440,589
Net income before investment transactions		235,664
Realized and unrealized loss from investment transactions		
Net realized loss		(2,110,841)
Net change in unrealized loss		(3,070,895)
Total realized and unrealized loss from investment transactions		(5,181,736)
Realized and unrealized loss from equity method investees		
Net realized loss from equity method investees		(128,462)
Net unrealized loss from equity method investees		(1,778)
Total realized and unrealized loss from equity method investees		(130,240)
Net loss before minority interest in net income of consolidated entities		(5,076,312)
Minority interest in net loss of consolidated entities		4,469,051
Net loss	$	(607,261)

The accompanying notes are an integral part of these consolidated financial statements.

Highland Capital Management, L.P.
Consolidated Statement of Changes in Partners' Capital
Year Ended December 31, 2008

(in thousands of dollars)	General Partner	Limited Partners	Total
Partners' capital at December 31, 2007	$ 6,466	$ 666,958	$ 673,424
Net loss	(5,416)	(601,845)	(607,261)
Partner distributions	(533)	(59,232)	(59,765)
Other comprehensive income (loss)	(50)	(5,558)	(5,608)
Partners' capital at December 31, 2008	$ 467	$ 323	$ 790

The accompanying notes are an integral part of these consolidated financial statements.

Highland Capital Management, L.P.
Consolidated Statement of Cash Flows
Year Ended December 31, 2008

(in thousands of dollars)

Cash flows from operating activities	
Net loss	$ (607,261)
Adjustment to reconcile net loss to cash and cash equivalents provided by operating activities	
Cash provided by operating activities:	
Net realized loss on investments and derivative contracts	2,110,841
Net unrealized loss on investments and derivative contracts	3,070,895
Amortization of equity distributions on CLOs	54,586
Net realized loss from equity method investees	128,462
Net unrealized loss from equity method investees	1,778
Minority interest in net loss of consolidated entities	(4,469,051)
Depreciation and amortization	12,026
Changes in assets and liabilities	
Management and incentive fees receivable	210
Deferred incentive fees	150,281
Investment management contracts	5,662
Other assets	118,535
Due from brokers	1,970,423
Accounts payable	11,521
Accrued and other liabilities	(100,327)
Due to brokers for unsettled trades	(59,527)
Long-term incentive plan	(38,111)
Obligations to return collateral	161,882
Net cash provided by operating activities	2,522,825
Cash flows from investing activities	
Restricted cash	921,167
Purchase of fixed assets and leasehold improvements, net	5,498
Purchases of investments	(8,624,670)
Proceeds from dispositions of investments	11,044,838
Purchases of investments to cover securities sold, not yet purchased	(12,920,295)
Proceeds from securities sold, not yet purchased	10,748,348
Net cash provided by financing activities	1,174,886

The accompanying notes are an integral part of these consolidated financial statements.

Highland Capital Management, L.P.
Consolidated Statement of Cash Flows
Year Ended December 31, 2008

(in thousands of dollars)

Cash flows from financing activities		
Payments on long-term debt		(63,574)
Proceeds from revolving debt and promissory notes		115,649
Proceeds from affiliate loans		48,448
Net payments on secured borrowings		(3,306,382)
Change in due to brokers		(944,702)
Capital contributions from minority interest investors of consolidated entities		907,113
Capital withdrawals from minority interest investors of consolidated entities		(783,503)
Partner distributions		(52,265)
Net cash used in financing activities		(4,079,216)
Net decrease in cash and cash equivalents		(381,506)
Cash and cash equivalents		
Beginning of year		434,736
End of year	$	53,230
Supplemental disclosure of cash flow information		
Interest paid during the year	$	65,035
Non-cash distributions to partners		7,500

The accompanying notes are an integral part of these consolidated financial statements.

1. Description of Business

Highland Capital Management, L.P. (the “Partnership”) was formed on July 7, 1997 as a limited partnership in the state of Delaware. The Partnership is a registered investment advisor under the Investment Advisors Act of 1940 that manages collateralized loan obligations (“CLOs”), registered investment companies (“RICs”), hedge funds, and other leveraged loan transactions that are collateralized predominately by senior secured bank debt and high-yield bonds. The Partnership and its subsidiaries make direct investments in debt, equity and other securities in the normal course of business. The Partnership’s general partner is Strand Advisors, Inc. (the “General Partner”). The Partnership is 100% owned by senior management of the Partnership.

As of December 31, 2008, the Partnership provided investment advisory services in accordance with management agreements for thirty CLOs, sixteen RICs, one warehouse transaction, five separate accounts, one master limited partnership, and twelve hedge fund structures, with total assets under management of approximately $28.5 billion.

2. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies followed by the Partnership in the preparation of its financial statements.

Basis of Accounting
The Partnership’s consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) and are stated in United States dollars.

Principles of Consolidation
The consolidated financial statements include the accounts of the Partnership and the Partnership’s consolidated subsidiaries, which are comprised of (i) those entities in which it has controlling investment of 50% or more and has control over significant operating, financial and investing decisions of the entity, (ii) those entities in which it, as the general partner, has control over significant operating, financial and investing decisions of the entity, and (iii) variable interest entities (“VIEs”) in which it is the primary beneficiary as described below.

The Partnership consolidates all VIEs for which it is considered to be the primary beneficiary, pursuant to Financial Accounting Standards Board (“FASB”) Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities — an interpretation of ARB No. 51, as revised* (“FIN 46R”). FIN 46R clarifies the consolidation guidance for entities in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance activities without additional subordinated financial support from other parties. These entities are defined as VIEs. In general, FIN 46R requires an enterprise to consolidate a VIE when the enterprise holds a variable interest in the VIE and is deemed to be the primary beneficiary of the VIE. An enterprise is the primary beneficiary if it absorbs a majority of the VIEs expected losses, receives a majority of the VIEs expected residual returns, or both.

The Partnership consolidates non-VIEs in which it as the general partner has control over significant operating, financial and investing decisions of the entity, pursuant to the Emerging Issues Task Force ("EITF") 04-5, *Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*.

Consolidation of Non-Variable Interest Entities
Under EITF 04-5, the Partnership consolidates the following non-VIEs (collectively referred to as the "Consolidated Investment Funds"). The Partnership (or its wholly owned subsidiaries) controls the general partner of the respective entities and is responsible for the daily operations. :

- Highland Crusader Offshore Partners, L.P. (“Crusader Master”), a Bermuda exempted limited partnership that commenced operations on July 10, 2000;
- Highland CDO Opportunity Master Fund, L.P. (“CDO Master Fund”), a Bermuda limited partnership that commenced operations on November 9, 2005;
- Highland Credit Strategies Master Fund, L.P. (“Credit Strategies Master”), a Bermuda exempted limited partnership that commenced operations on August 24, 2005;
- Highland Credit Opportunities CDO, L.P. (“Credit Opportunities Master”), a Delaware limited partnership that commenced operations on December 29, 2005;
- Highland Select Equity Fund, L.P. (“Select Equity Fund”), a Delaware limited partnership that commenced operations on January 1, 2002;
- Highland Equity Focus Fund, L.P. (“Equity Focus Fund”), a Delaware limited partnership that commenced operations on September 1, 2002;
- Highland Real Estate Fund 2002-A, L.P. (“Real Estate Fund”), a Delaware limited partnership that commenced operation on April 1, 2002;
- Highland Multi-Strategy Master Fund, L.P. (“Multi-Strat Master”), a Bermuda limited partnership that commenced operations on July 18, 2006;
- Highland Multi-Strategy Fund, L.P. (“Multi-Strat Domestic Feeder”), a Delaware limited partnership that commenced operations on July 6, 2006;
- Prospect Management Advisors, L.P. ("PMA"), a Delaware limited partnership that commenced operations on November 22, 2004 (not an investment fund);
- Canopy Timberlands, L.P., a Delaware limited partnership that commenced operations on April 29, 2008;
- Highland Restoration Capital Partners Offshore, L.P. (“Restoration Offshore”) a Cayman limited partnership that commenced operations on September 2, 2008;
- Highland Restoration Capital Partners, L.P. (“Restoration Onshore”) a Delaware limited partnership that commenced operations on September 2, 2008; and
- Highland Restoration Capital Partners Master, L.P. (“Restoration Master”) a Delaware limited partnership that began commenced on September 2, 2008.

Consolidation of Variable Interest Entities
Under FIN 46R the Partnership consolidated the following VIEs as it is the primary beneficiary:

- Highland Financial Corporation ("HFC"), a company incorporated on February 28, 2006 under the laws of the state of Delaware;

- Highland Financial Real Estate Corporation ("HFREC"), a company incorporated on March 15, 2006 under the laws of the state of Maryland; and

- HCM Trident (Delaware) Corporation ("HCM Trident"), a company incorporated on July 3, 2007 under the laws of the state of Delaware.

Consolidation of Majority Owned Entities
The Partnership consolidates the following entities as it has a controlling majority interest:

- 100% interest in Highland Capital Management Europe, Ltd. ("Highland Europe"), a company organized in the United Kingdom and purchased by the Partnership on April 6, 2005;

- 100% interest in Highland Capital Special Allocation, LLC ("HCSA"), a Delaware limited liability company that commenced operations on December 21, 2006;

- 100% interest in HFP GP, LLC, a Delaware limited liability company that commenced operations on January 20, 2006;

- 100% interest in Highland Receivables Finance 1, LLC, a Delaware limited liability company that commenced operations on December 29, 2006;

- 100% interest in Highland Capital Management (Singapore) Pte, Ltd, a company organized in the Republic of Singapore that commenced operations on April 2, 2008;

- 87.5% interest in HySky Communications, LLC, a Delaware limited liability company that commenced operations on December 22, 2006; and

- 84.5% interest in HE Capital, LLC, a Delaware limited liability company that commenced operations on March 22, 2007.

All significant interpartnership and intercompany accounts and transactions have been eliminated in consolidation of all of the aforementioned consolidated entities. All the Consolidated Investment Funds are, for US GAAP purposes, investment companies under the AICPA Audit and Accounting Guide - Investment Companies. The Partnership has retained the specialized accounting of these funds pursuant to EITF No. 85-12 *Retention of Specialized Accounting for Investments in Consolidation*.

The Partnership and its majority owned entities have a 29.3% interest in an affiliate, Highland Financial Partners, L.P. ("HFP"), which is considered a VIE. The Partnership and its consolidated entities have a 48.11% interest in HFP. The Partnership is not the primary beneficiary, and the financial results for HFP have not been consolidated, but have been accounted for using the equity method of accounting whereby it records its share of the underlying income or loss of HFP.

Investment Transactions
Investment transactions are recorded on a trade date basis. Realized gains and losses on the transactions are determined based on either the first-in, first-out or specific identification method.

Fair Value Measurement
Effective January 1, 2008, the Partnership and its consolidated entities adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*, for the financial assets and liabilities recorded at fair value on the Consolidated Statement of Assets, Liabilities and Partners' Capital.

SFAS No. 157 defines fair value as the price an entity would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants as of the measurement date. The standard requires fair value measurement techniques to reflect the assumptions market participants would use in pricing an asset or liability and, where possible, to maximize the use of observable inputs and minimize the use of unobservable inputs. It also establishes the following hierarchy that prioritizes the valuation inputs into three broad levels:

- Level 1 – Valuation based on quoted prices in active markets for identical assets and liabilities that the Partnership and the Consolidated Investment Funds have the ability to access as of the measurement date. Valuations utilizing Level 1 inputs do not require any degree of judgment.

- Level 2 – Valuations based on (a) quoted prices for similar instruments in active markets; (b) quoted prices for identical or similar instruments in markets that are not active; or (c) models in which all significant inputs are observable, either directly or indirectly.

- Level 3 – Valuations based on models in which the inputs are unobservable and significant to the fair value measurement, which includes situations where there is little, if any, market activity for the asset or liability.

The availability of observable inputs varies among financial instruments and is affected by numerous factors, including the type of instruments, the period of time in which the instrument has been established in the marketplace, market liquidity for an asset class and other characteristics particular to a transaction. When the inputs used in a valuation model are unobservable, management is required to exercise a greater degree of judgment to determine fair value than it would for observable inputs. For certain instruments, the inputs used to measure the fair value may fall into different levels of the hierarchy discussed above. In those cases, the instruments are categorized for disclosure purposes based on the lowest level of inputs that are significant to their fair value measurements.

The Partnership and Consolidated Investment Funds use prices and inputs that are current as of the measurement dates. The Partnership also considers the counterparty's non-performance risk when measuring the fair value of its investments.

During periods of market dislocation, the ability to observe prices and inputs for certain instruments may change. These circumstances may result in the instruments being re-classified to different levels within the hierarchy over time. They also create an inherent risk in the estimation of fair value that could cause actual amounts to differ from management's estimates.

Whenever possible, the Partnership and its Consolidated Investment Funds use actual market prices or relevant observable inputs to establish the fair value of its assets and liabilities. In cases where observable inputs are not available, the Partnership and Consolidated Investment Funds develop methodologies that provide appropriate fair value estimates. These methodologies are reviewed on a continuous basis to account for changing market conditions.

As of December 31, 2008, the Partnership and its consolidated entities investments consisted of floating rate syndicated bank loans, high yield corporate bonds, CLO securities, private placements, private placement real estate debt and equity, life settlement contracts and common and preferred equity securities. In addition, the consolidated entities are parties to various credit default swaps. The majority of these financial instruments are not listed on national securities exchanges, and management is required to use significant judgment to estimate their values.

The fair value of the loans, corporate bonds and CLO securities are generally based on quotes received from brokers or independent pricing services. Due to the recent disruption in the credit markets, an increasing number of these quotes are derived from implied values, bid/ask prices for trades that were never consummated, or a limited amount of actual trades. The policy of the Partnership and its consolidated subsidiaries is to classify loans and bonds that are prices in this manner as Level 3 assets because the markets in which they trade are not active and the inputs used by the brokers and pricing services are not readily observable. Loans and bonds with quotes that are based on actual trades with a sufficient level of activity on or near the valuation date are classified as Level 2 assets.

The consolidated entities private placement real estate investments include equity interests in limited liability companies and debt issued by entities that invest in commercial real estate. The fair value of these investments is based on internal models developed by the Partnership. The significant inputs to the models include cash flow projections for the underlying properties and appraisals performed by independent valuation firms. Since these inputs are no readily observable, the investments are classified as Level 3 assets.

Common and preferred equity securities traded on national exchanges are valued at their closing prices as of December 31, 2008. These securities are classified as Level 1 assets. The consolidated entities also hold certain equity securities for which no active market exists. The value of these securities, which are classified as Level 3 assets, is based on a combination of broker quotes and internal valuation models.

Life settlement contracts are valued using mortality tables and interest rate assumptions that are deemed appropriate for the demographic characteristics of the parties insured under the policies. Since these inputs are not readily observable, they are classified as Level 3 assets.

The fair value of credit default swaps is based on quotes received from an independent pricing service. The inputs used to derive the quotes are not readily observable and are therefore classified as Level 3.

Refer to Note 5 for the disclosures required by SFAS No. 157.

Management and Incentive Fee/Allocation Revenue
The Partnership recognizes revenue as earned in connection with services provided under collateral and investment management agreements. Under these agreements, the Partnership earns management fees calculated as a percentage of assets under management or net asset value. The Partnership also has an opportunity to earn additional incentive fees and incentive allocations related to certain management agreements depending ultimately on the financial performance of the underlying assets the Partnership manages. During the year ended December 31, 2008, the Partnership and its consolidated entities recognized management and incentive fees and incentive allocations of approximately $204.9 million, and $0.9 million, respectively. The Partnership recognized approximately $150.3 million of depreciation on incentive fees previously deferred under Sec. 409(A) of the Internal Revenue Code. This has been presented in *Net depreciation on deferred incentive fees* in the consolidated statement of income.

Dividends, Interest and Expense Recognition

Dividend income and dividends on securities sold, not yet purchased are recorded on the ex-dividend date, net of withholding taxes. Operating expenses, including interest on securities sold short, not yet purchased are recorded on the accrual basis as incurred.

Income Taxes

The Partnership is not subject to federal income taxes, and therefore, no provision has been made for such taxes in the accompanying consolidated financial statements. Income taxes are the responsibility of the partners. Certain consolidated subsidiaries are subject to federal income taxes, which have been recognized in accordance with SFAS No. 109, *Accounting for Income Taxes*.

Certain entities that are included in these financial statements are subject to federal and/or state income taxes. The stated objectives of SFAS No. 109 are to recognize (a) the amount of taxes payable or refundable for the current year and (b) deferred tax liabilities and assets for the future tax consequences of events that have been recognized in financial statements or filed tax returns. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. The following subsidiaries are subject to these provisions: Highland Europe, HFC and HFREC. Deferred tax assets of approximately $0.2 million are presented in *Other assets* in the consolidated balance sheet. Federal, state and city taxes for the Partnership and its consolidated corporate subsidiaries of approximately $20,000 are presented in *Other expense* in the consolidated statement of income.

The Consolidated Investments Funds are not subject to federal income taxes and therefore no provision has been made in the accompanying consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held at U.S. and foreign banks, deposits with original maturities of less than 90 days, and money market funds. Foreign cash of $1.8 million is included in the cash and cash equivalents on the consolidated balance sheet.

Restricted Cash

The Partnership and its subsidiaries are required to maintain cash balances as collateral for various financing and derivative transactions. These amounts are reported as restricted cash.

Fixed Assets and Leasehold Improvements

Fixed assets and leasehold improvements are carried at cost, less accumulated depreciation. Depreciation is provided using the straight-line method over the shorter of the estimated useful life of the assets or the lease term.

Total Return Swaps

A total return swap agreement is a two-party contract under which an agreement is made to exchange returns from predetermined investments or instruments. The gross returns to be exchanged or “swapped” between the parties are calculated based on a “notional amount,” which is valued monthly according to the valuation policy mentioned above to determine each party’s obligation under the contract.

Risks could arise from entering into swap agreements from the potential inability of counterparties to meet the terms of their contracts, and from the potential inability to enter into a closing contract. The Partnership's Consolidated Investment Funds recognize all cash flows received (paid) or receivable (payable) from swap transactions on a net basis as realized or unrealized gains or losses in the consolidated statement of income. The Partnership and the Consolidated Investment Funds are charged a finance cost by counterparties with respect to each agreement. The finance cost is reported as part of the realized or unrealized gains or losses.

Credit Default Swaps
As discussed in Note 7, under a credit default swap agreement two parties agree to transfer the credit exposure of an asset between one another. The seller of the swap guarantees the credit worthiness of a specific instrument by agreeing to pay the buying party a specific amount (generally par value) in the event that the instrument defaults.

At December 31, 2008, the Partnership's Consolidated Investment Funds were party to multiple credit default swaps in which it acts as the guaranteeing party. In the event that any of the underlying instruments default prior to the expiration of the agreements, the Consolidated Investment Funds are obligated to pay the swap counterparty the par value of the specific instrument. The Consolidated Investment Funds collect a fee based on the size of the underlying positions which are treated as realized gains once received. The difference between the current market value of the swaps and the original price of the swap is reported as an unrealized gain or loss.

At December 31, 2008, the Partnership's Consolidated Investment Funds were party to several credit default swaps in which it was the guaranteed party. In the event that any of the instruments underlying the various swap agreements default before the swap agreement expires, the Partnership and the Consolidated Investment Funds will be made whole by the swap counterparty. The Partnership and the Consolidated Investment Funds treat the fees paid as a realized loss once paid. The difference between the current market value of the swaps and the original price of the swap is reported as an unrealized gain or loss.

Securities Sold, Not Yet Purchased
The Partnership's Consolidated Investment Funds engage in "short sales" as part of their investment strategies. Short selling is the practice of selling securities that are borrowed from a third party. The Consolidated Investment Funds are required to return securities equivalent to those borrowed for the short sale at the lender's demand. Pending the return of such securities, the Consolidated Investment Funds deposit with the lender as collateral the proceeds of the short sale plus additional cash or securities. The amount of the required deposit, which earns interest, is adjusted periodically to reflect any change in the market price of the securities that the Consolidated Investment Funds are required to return to the lender.

Securities Loaned
The Partnership's Consolidated Investment Funds may lend securities to their financing counterparties for margin. The lending entity receives the interest associated with the securities loaned. The loans are secured by the fair value of the securities. Gains or losses in the fair value of the securities loaned that occur during the term of the loan will be for the account of the lender. The lender has the right under the lending agreement to recover the securities from the prime brokers on demand. The lender pays a fee to the broker for the cash collateral received. This is accounted for as interest expense. A credit risk exists to the lender under this type of transaction to the extent that the counterparty defaults on its obligation to return the securities loaned.

Options
The Partnership's Consolidated Investment Funds purchase and sell call and put options on equity securities and equity indices as part of its overall portfolio management strategies. Purchased call or put options may be used to obtain economic exposure equivalent to a long or short position, respectively, or to hedge existing or anticipates portfolio positions. Certain options contracts are index options, under which amounts due or payable upon exercise are settled entirely in cash based on the difference between the value of the index at maturity and its contract (or strike) value. The potential risk of loss for purchased options is limited to the premium paid.

The premium paid for the purchase of an option is included in the consolidated balance sheet as an investment and subsequently marked-to-market to reflect the current value of the option. If an option expires on the stipulated expiration date, the Consolidated Investment Funds realize a loss equal to the cost of the option. If the Consolidated Investment Funds enter into a closing sale transaction, the Consolidated Investment Funds realize a gain or loss, depending on whether the proceeds from the closing sale transaction are greater or less than the cost of the option. If the Consolidated Investment Funds exercise a call option, the cost of the securities acquired upon exercise is increased by the premium paid to buy the call. If the Consolidated Investment Funds exercise a put option, it realizes a gain or loss from the sale of the underlying security and the proceeds from such sale are decreased by the premium originally paid.

Margin Transactions
In order to obtain more investable cash, the Partnership and its subsidiaries may use various forms of leverage including purchasing securities on margin. Such leverage may allow the Partnership and its subsidiaries to increase net assets at a greater rate during increasing markets, but also may lead to a more rapid decrease in net assets in a declining market. A margin transaction consists of purchasing an investment with money loaned by a broker and agreeing to repay the broker at a later date. Interest expense on the outstanding margin balance is based on market rates at the time of the borrowing.

Withdrawals Payable
Withdrawals are recognized as liabilities, net of incentive allocations, when the amount requested in the withdrawal notice becomes fixed and determinable. This generally may occur either at the time of receipt of the notice, or on the last day of a fiscal period, depending on the nature of the request. As a result, withdrawals paid after the end of the year, but based upon year-end capital balances are reflected as withdrawals payable at December 31, 2008. Withdrawal notices received for which the dollar amount is not fixed remains in capital until the amount is determined. Withdrawals payable may be treated as capital for purposes of allocations of gains/losses pursuant to the partnerships' governing documents. At December 31, 2008, the Partnership and its consolidated entities had withdrawals payable of $16,825. Refer to Note 16.

Use of Estimates
The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts and disclosures in the consolidated financial statements. Actual results could differ from those estimates.

Foreign Currency Transactions
The Partnership's subsidiary Highland Europe uses British Pounds as its functional currency and enters into transactions in multiple foreign currencies. All foreign currency asset and liability balances are presented in U.S. dollars in the consolidated financial statements, translated using the exchange rate as of December 31, 2008. Revenues and expenses are recorded in U.S. dollars using an average exchange rate for the relative period. Foreign currency transaction gains and losses resulting from transactions outside of the functional currency of an entity are included in *Other income* on the consolidated statement of income.

The Consolidated Investment Funds do not isolate that portion of the results of operations resulting from changes in foreign exchange rates or investment or fluctuations from changes in market prices of securities held. Such fluctuations are included within the Net realized and unrealized gains or loss from investments.

Financial Instruments
The Partnership and its consolidated entities determine fair value of financial instruments as required by SFAS No. 107, *Disclosures About Fair Values of Financial Instruments*. The carrying amounts for cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate their fair values because of their short maturities.

Derivative Financial Instruments
During 2008, the Partnership was a party to a total return swap agreement. In addition, the Partnership engaged in purchases and sales (including “short sales”) of exchange traded commodities and the short sale of subprime backed collateralized mortgage obligations through a purchase of a credit default swap. The Partnership has not designated any derivative transactions as accounting hedges, and, consequently, has not applied hedge accounting treatment under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted.

As discussed in more detail in Note 6, all realized gains or losses related to the Partnership’s total return swap, credit default swap and commodity purchases and sales are recorded in *Net realized loss on investment transactions*. The cash flows associated with derivative transactions are classified as investing in the consolidated statement of cash flows.

As of December 31, 2008, the Partnership was not a party to a derivative transaction.

Life Settlement Contracts
Two of the Partnership’s Consolidated Investment Funds invest in life settlement contracts (the “Policies”) and account for them using the fair value method in accordance with FASB Staff Position FTB85-4-1, *Accounting for Life Settlement Contracts by Third-Party Investors*. The Policies are reflected as a component of “Investments, at fair value” in the Consolidated Statement of Assets, Liabilities and Partners’ capital. Realized and unrealized gains (losses) on the Policies are reflected in the Consolidated Statement of Income. Cash flows used to purchase the Policies are reflected as a component of “Purchases of Investments” in the Consolidated Statement of Cash Flows.

The Consolidated Investment Funds were invested in 138 Policies at December 31, 2008 with a total face value of approximately $1,216 million.

Partners’ Capital
The Partnership agreement requires that income or loss of the Partnership be allocated to the partners in accordance with their respective partnership interests.

Goodwill and Other Intangible Assets
The Partnership purchased Highland Europe on April 6, 2005. Goodwill represents the amount paid in excess of the fair value of the assets of Highland Europe at the date of acquisition. No goodwill impairments existed as of December 31, 2008.

The Partnership has obtained the rights to the management contracts of certain RICs it manages by acquiring the underlying contracts from the predecessor investment manager. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets,* the Partnership performs an impairment test on the purchased investment contracts on an annual basis. Any depreciation in the value of the purchased investment management contracts are accounted for in the year when it occurs. The carrying values of the purchased investment contracts are not adjusted for appreciation. During 2008, two RICs were reorganized into a fund managed by the Partnership. As more fully described in Note 15, the carrying value of these purchased management contracts were written off at that time. For the remaining contracts, there was no impairment.

The goodwill and purchased investment management contracts are indefinite-lived assets and are not amortized.

During 2007, the underlying companies consolidated by HFREC purchased rental property (the “Project”). The Projects’ purchase prices were allocated to the fair value of tangible and intangible assets and liabilities acquired with the purchases. Lease intangibles represent the measurement of certain intangibles associated with operating leases.

The lease intangible components are the estimated values of 1) leasing commissions (prepaid origination costs), 2) in-place leases, and 3) tenant/customer relationships. Leasing commissions and in-place leases represent the value associated with “cost avoidance” of acquiring in-place leases and are computed as the estimated loss of revenue, net of costs incurred for the period required to lease the “assumed vacant” property to the occupancy level when purchased. These amounts are amortized using the straight-line method over the remaining term of the lease of 2.5 years and are included in depreciation and amortization. Tenant relationships represent the present value of the anticipated renewals of in-place leases, adjusted for the probability of the renewals. The value of tenant relationships is amortized using the straight-line method over the average renewal term of the lease of 7 years and is included in depreciation and amortization. Refer to Note 15.

Recently Issued Accounting Standards & Interpretations
In September 2008, the Financial Accounting Standards Board (“FASB”) issued FSP FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*. FSP FAS 133-1 and FIN 45-4 requires enhanced disclosures about credit derivatives and guarantees and amends FIN 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* to exclude derivatives instruments accounted for at fair value under SFAS 133. The Consolidated Investment Funds adopted FSP FAS 133-1 and FIN 45-4 as of December 31, 2008. Since FSP FAS 133-1 and FIN 45-4 only requires additional disclosures concerning credit derivatives and guarantees, it did not have any effect on the Consolidated Investment Fund’s financial position, results of operations or cash flows. Refer to Note 7 for the disclosures required by FSP FAS 133-1 and FIN 45-4.

In December 2008, the FASB issued FIN 48-3, Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises ("FSP 48-3"), which deferred the effective date of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 ("FIN 48"). Under FSP 48-3, in the absence of early adoption, FIN 48 will become effective for the Partnership and its Consolidated Investment Funds at December 31, 2009. Management has elected to take advantage of the deferral and will continue to accrue for liabilities relating to uncertain tax positions only when such liabilities are probably and estimable. Based on its continued analysis, management has determined that adoption of FIN 48 will not have a material impact to the financial statements. However, management's conclusions regarding FIN 48 may be subject to review and adjustment at a later date based on ongoing analyses of tax laws, regulation and interpretations thereof and other factors.

FIN 48 requires management to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement which could result in recording a tax liability that would reduce partners' capital. FIN 48 must be applied to all existing tax positions upon initial adoption and the cumulative effect, if any, is to be reported as an adjustment to the beginning balance of partners' capital upon adoption.

In February 2007, the FASB released SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115*, or SFAS 159. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 may be adopted and the fair value option may be elected in the first quarter of 2008. The Partnership has elected to adopt this statement and evaluates securities on an instrument by instrument basis.

In December 2007, the FASB issued SFAS No. 160, *Accounting for Non-controlling Interests*, or SFAS 160. SFAS 160 clarifies the classification of minority interests in the consolidated balance sheet and statement of income. This Statement is effective for fiscal years beginning on or after December 15, 2008. Under SFAS 160, the ownership of consolidated subsidiaries by other consolidated subsidiaries will be presented separately in the equity section of the consolidated balance sheet. Also, upon the deconsolidation of any subsidiary, the retained equity investment will be measured at fair value. The Partnership has not yet determined the impact, if any, that the implementation of SFAS No. 157 would have on our consolidated results of operations or financial condition.

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141 (revised 2007), *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) requires assets acquired, liabilities assumed, contractual contingencies and contingent consideration to be measured at their fair values at the acquisition date. In addition, SFAS 141(R) requires subsequent adjustments to any acquisition-related tax reserves to be recognized in net income rather than as an adjustment to the purchase price. SFAS 141(R) is effective for business combinations completed in periods beginning on or after December 15, 2008. The Partnership has not yet determined the impact, if any, that the implementation of SFAS No. 157 would have on our consolidated results of operations or financial condition.

In October 2008, the Financial Accounting Standards Board ("FASB") issued Staff Position 157-3, *Determining the Fair Value of a Financial Asset in a Market That Is Not Active,* ("FSP 157-3") which clarifies the application of SFAS No. 157, *Fair Value Measurements,* ("SFAS 157") in an inactive market and provides an illustrative example to demonstrate how the fair value of a financial asset is determined when the market for that financial asset is not active. The guidance provided by FSP 157-3 is consistent with the Partnership and its consolidated entities' approach to valuing financial assets for which there are no active markets.

3. Fixed Assets and Leasehold Improvements

Fixed assets and leasehold improvements are comprised of the following as of December 31, 2008:

(in thousands of dollars)

Buildings	$ 100,536
Land	25,168
Leasehold improvements	4,907
Computer and equipment	3,917
Furniture and fixtures	2,911
Computer software	2,423
Tenant improvements	2,285
Site improvements	986
Accumulated depreciation	(11,578)
	$ 131,555

The Partnership and its consolidated entities are depreciating fixed assets as follows:

	Period
Buildings	29 - 40 years
Leasehold improvements	Lease term
Computer and equipment	5 years
Furniture and fixtures	7 years
Computer software	3 years
Site improvements	10 years
Tenant improvements	Shorter of lease term or estimated life of tenant improvement

Depreciation expense in 2008 totaled approximately $6.1 million for the Partnership and its subsidiaries.

The Partnership and its consolidated entities had approximately $5.5 million of capital expenditures in 2008.

Highland Capital Management, L.P.
Notes to Consolidated Financial Statements
December 31, 2008

4. Investments

Detailed below is a summary of the Partnership and its subsidiaries' investments at December 31, 2008:

(in thousands)	Amortized Cost/Cost	Value
Investments in floating rate syndicated bank loans	$ 489,400	$ 206,847
Investments in fixed rate syndicated bank loans	88,749	62,918
Investments in fixed income securities	1,432,684	435,497
Investments in floating income investments	315,363	84,335
Investments in equity securities	1,583,804	770,028
Investments in life settlement contracts	247,668	200,386
Investments in CLOs (mezz tranches)	254,453	84,214
Investments in CLOs (residual CLO equity tranches)	470,421	70,700
Investments in closed-end mutual funds	26,253	9,244
Investments in private placement real estate	439,095	282,428
Investments in limited partnerships	121,433	130,077
Investments in warrants	6,088	2,085
Total investments	$ 5,475,411	$ 2,338,759
Total return swaps	$ -	$ (96,228)
Credit default swaps	(7,206)	(156,613)
Net unrealized gain/loss on swaps	$ (7,206)	$ (252,841)

	Proceeds	Value
Securities sold short, not yet purchased	$ 60,094	$ 71,831

Affiliated Investments
Investments in Residual CLO Equity and Mezzanine Tranches
Investments in affiliated residual CLO equity tranches primarily represent tranches of CLOs for which the Partnership and Highland Europe provide investment advisory services. The CDO Master Fund receives quarterly distributions based on the excess interest after paying the stated interest distributions to the senior and mezzanine note holders, and paying the investment manager, trustee and other related fees. A portion of these distributions are amortized against the cost basis of the investment based of the actual cash distributions received during the year versus the total expected remaining cash distributions to the residual CLO equity tranche. The remainder of the distribution is recorded as interest income.

Investments in residual equity and mezzanine tranches of CLOs are not actively traded. The estimated fair value of the CLOs is derived from broker quotes and valuation models. The estimated fair value of these investments as presented in the consolidated balance sheet does not necessarily represent the amount that could be obtained from the sale of these investments. Changes in the credit quality or the performance of the underlying collateral, the availability and price of assets available for reinvestment, interest rates and/or the interest rate curve, or other market conditions could have a material impact on the estimated fair value of the investments.

Investment in Highland Special Situations Fund
The Partnership invests in Highland Special Situations Fund ("HSSF"), a diversified, closed end RIC for which the Partnership provides investment advisory services. As of December 31, 2008, the market value of the Partnership's investment in HSSF was approximately $2.1 million. During the year ended December 31, 2008, the Partnership accrued approximately $0.3 million in dividends from HSSF.

Investment in Highland Equity Opportunities Fund
The Partnership invests in Highland Equity Opportunities Fund ("HEOF"), a diversified, open end RIC for which the Partnership provides investment advisory services. As of December 31, 2008, the market value of the Partnership's investment in HEOF was approximately $0.2 million. During the year ended December 31, 2008, the Partnership received approximately $152 in dividends from HEOF, which the Partnership reinvested in the fund.

Investment in Highland Distressed Opportunities, Inc.
The Partnership invests in Highland Distressed Opportunities, Inc. ("HCD"), a non-diversified, closed-end RIC for which the Partnership provides investment advisory services. As of December 31, 2008, the market value of the Partnership's investment in HCD was approximately $2.1 million. During the year ended December 31, 2008, the Partnership received approximately $0.1 million in dividends from HCD, which the Partnership reinvested in the fund.

Investment in Highland High Income Fund
The Partnership invests in Highland High Income Fund. ("HHIF"), a non-diversified, closed-end RIC for which the Partnership provides investment advisory services. As of December 31, 2008, the market value of the Partnership's investment in HHIF was approximately $0.2 million. During the year ended December 31, 2008, the Partnership received approximately $0.3 million in dividends from HHIF, which the Partnership reinvested in the fund.

Investment in Highland Income Fund
The Partnership invests in Highland Income Fund ("HIF"), a non-diversified, open-end RIC for which the Partnership provides investment advisory services. As of December 31, 2008, the market value of the Partnership's investment in HIF was approximately $0.3 million. During the year ended December 31, 2008, the Partnership received approximately $0.3 million in dividends from HIF, which the Partnership reinvested in the fund.

Prepaid Forward Contract
On July 28, 2006, Highland Multi-Strategy Onshore Master Subfund I, LLC and Barclays Bank PLC ("Barclays") entered into a prepaid forward contract. The Partnership and affiliates redeemed approximately $312.7 million of a reference portfolio, which was comprised of the following basket of funds advised by the Partnership: Highland Crusader Offshore Fund II, Ltd., Credit Strategies Domestic Feeder, Highland CDO Opportunity Fund, Ltd., Real Estate Fund, Equity Focus Fund and Select Equity Fund. Barclays simultaneously contributed approximately $312.7 million as a hedge to its obligation under the prepaid forward contract.

Barclays was prepaid approximately $156.3 million, or one-half of the reference portfolio value at initiation of the transaction. A notional amount, (the initial reference portfolio value less the amount prepaid), accretes interest to Barclays at monthly LIBOR plus 0.90% per annum. As of December 31, 2008, the notional amount was approximately $184.3 million.

A collateral account in the amount of approximately $53.2 million was established to further secure the transaction. Due to extreme market volatility, all of the underlying holdings in the collateral account were sold during 2008.

The term of the prepaid forward contract is three years and allows for net settlement upon termination. At contract expiration, Barclays will remit in cash the greater of the difference between the reference portfolio value and the notional amount, as valued on the scheduled termination date, or zero. As of December 31, 2008, the contract did not have a positive net fair value.

Detailed below is a summary of the transaction as of December 31, 2008:

(in thousands of dollars)

Reference Portfolio		**Value**
Real Estate Fund	$	46,265
Highland Crusader Fund, L.P.		30,483
Select Equity Fund		15,337
Equity Focus Fund		8,451
Highland Credit Opportunities CDO, L.P.		295
Highland CDO Opportunity Fund, Ltd.		-
Highland Credit Strategies Fund, L.P.		-
Reference portfolio total		100,831
Notional amount		(184,272)
Fair value of prepaid forward contract	$	(83,441)

On October 7, 2008, Barclays submitted a notice of early termination for the prepaid forward contract. Refer to Note 17 for further discussion.

Accreting Strike Option
On February 28, 2007, Highland Multi-Strategy Onshore Master Subfund II, LLC entered into an Accreting Strike Option ("ASO") with Barclays. The ASO's value is based on the following basket of funds ("the reference portfolio") advised by the Partnership: Highland Crusader Offshore Fund II, Ltd., Credit Strategies Domestic Feeder, Highland CDO Opportunity Fund, Ltd., Real Estate Fund, Equity Focus Fund, Select Equity Fund and Credit Opportunities Domestic Feeder. The value of the reference portfolio at inception was approximately $250.2 million

Barclays was paid a $71.4 million premium on the option. The strike price, (the initial reference portfolio value less the premium paid), accretes interest to Barclays at monthly LIBOR plus 1.4% per annum. As of December 31, 2008, the strike price was approximately $176.4 million.

The term of the accreting strike option is five years and allows for net settlement upon termination. At contract expiration, Barclays will remit in cash the greater of the difference between the reference portfolio value and the strike price, as valued on the scheduled termination date, or zero. As of December 31, 2008, the ASO did not have a positive net fair value.

Detailed below is a summary of the transaction as of December 31, 2008:

(in thousands of dollars)

Reference Portfolio		**Value**
Select Equity Fund	$	93,228
Real Estate Fund		20,687
Highland Crusader Fund, L.P.		11,040
Equity Focus Fund		5,749
Highland Credit Opportunities CDO, L.P.		365
Highland CDO Opportunity Fund, Ltd.		-
Highland Credit Strategies Fund, L.P.		-
Reference portfolio total		131,069
Notional amount		(176,400)
Fair value of prepaid forward contract	$	(45,331)

On October 13, 2008, Barclays served notice of early termination for the accreting strike option. Refer to Note 17 for further discussion.

Investment in Highland Financial Partners, L.P. ("HFP")
The Partnership invests in HFP, a holding company organized to provide investors with the earnings of its leveraged credit subsidiaries. As of December 31, 2008, the Partnership's equity investment in HFP had no value and was permanently impaired. The Partnership recognized a $74.7 million realized loss in Net realized loss from equity method investees.

On October 20, 2008, the Partnership received an HFP senior secured note in the amount of $22.3 million from CDO Master Fund. The note was transferred to the Partnership to satisfy a prior obligation. The note accrues interest at a rate of 10% per annum, payable quarterly. As of December 31, 2008, the fair value of the note was approximately $7.4 million.

Investment in Highland Capital Special Allocation, LLC
The Partnership is the sole owner of HCSA, which was organized to receive management incentive allocations from HFP. During 2008, HCSA did not receive an incentive allocation. As of December 31, 2008, the Partnership's investment in HCSA had no value and was permanently impaired. The Partnership recognized a $53.8 million realized loss in Net realized loss from equity method investees.

5. Fair Value of Financial Instruments

As discussed in Note 2, the Partnership and its consolidated entities categorize investments recorded at fair value in accordance with the hierarchy established by SFAS No. 157.

The following table provides a summary of the financial instruments recorded at fair value on a recurring basis by level within the hierarchy as of December 31, 2008:

(in thousands of dollars)	Level 1	Level 2	Level 3	Total Fair Value at December 31, 2008
Investments	$ 221,571	$ 43,837	$ 2,073,351	$ 2,338,759
Derivatives	-	-	(252,841)	(252,841)
Securities sold, not yet purchased	71,831	-	-	71,831

The following table provides a roll forward of the financial instruments classified within Level 3 for the year ended December 31, 2008. The classification of a financial instrument within Level 3 is based on the significance of the unobservable inputs to the overall fair value measurement.

Fair Value Measurements Using Significant Unobservable Inputs

(in thousands of dollars)	Investments	Derivatives
Estimated fair values as of January 1, 2008	$ 5,740,260	$ 78,060
Purchases, sales and maturities, net	(788,142)	51,512
Net transfers in/(out) of Level 3	10,959	-
Net realized (losses)/gains	(1,014,179)	(181,345)
Net unrealized losses	(1,875,546)	(201,068)
Estimated fair values as of December 31, 2008	$ 2,073,352	$ (252,841)

6. Derivative Transactions

In June 2008, the Partnership terminated a total return swap ("TRS") and began the process of selling the underlying assets in the TRS. The Partnership recognized a $7.8 million loss on the sale of the underlying assets in the TRS. The loss and net settlement interest are recorded in Net realized loss on investment transactions in the Consolidated Statement of Income. As of December 31, 2008, all of the assets in the TRS had been sold; however, there were certain assets that remained unsettled. As of December 31, 2008, approximately $2.5 million in collateral posted was owed to the Partnership for these unsettled trades. This amount is recorded in Due from broker.

During the first quarter of 2008, the Partnership held short positions in exchange traded commodities and realized a loss of $16.7 million from these transactions. This activity is recorded in Net realized loss on investment transactions.

During the first quarter of 2008, the Partnership participated in a credit-default swap ("CDS") through one of the Partnership's Consolidated Investment Funds. The underlying assets in the CDS were subprime mortgage backed securities. In this transaction, the Partnership was a purchaser of protection against the lack of future cash flows from these securities. The Partnership realized a gain of $74.5 million from the sale of the CDS, which is recorded in Net realized loss on investment transactions. The Partnership's premium recognized for the transaction in 2008 was $0.9 million. The premiums are recorded in Net realized loss on investment transactions.

7. Total Return Swaps

Detailed below is an analysis of the total return swap balances of the Consolidated Investment Funds at December 31, 2008:

(in thousands of dollars)		**Value**
Collateral included in "Restricted cash"	$	196,409
Notional value of underlying investments	$	231,586
Fair value of underlying investments		101,588
Unrealized depreciation of underlying investments included in "Unrealized losses on derivatives contracts"	$	(117,046)

8. Credit Default Swaps

The Consolidated Investment Funds enter into credit default swaps to simulate long and short bond positions that are either unavailable or considered to be less attractively priced in the bond market. The Consolidated Investment Funds use these swaps to reduce risk where they have exposure to the issuer, or to take an active long or short position with respect to the likelihood of an event of default.

The buyer of a credit default swap is generally obligated to pay the seller a periodic stream of payments over the term of the contract in return for a contingent payment upon the occurrence of a credit event with respect to an underlying reference obligation. A credit event for corporate reference obligations includes bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring. If a credit event occurs, the seller must pay the contingent payment to the buyer, which is typically the par value (full notional value) of the reference obligation, though the actual payment may be mitigated by terms of the International Swaps and Derivative Agreement ("ISDA"), allowing for netting arrangements and collateral. In addition, the payment may be reduced by anticipated recovery rates, segregated collateral and netting arrangements that may incorporate multiple transactions with a given counterparty.

The seller of credit default swaps receives a fixed rate of income throughout the term of the contract, which typically is between one month and five years, provided that no credit event occurs. If a credit event occurs, the seller may be required to pay the buyer the full notional value of the reference obligation.

Highland Capital Management, L.P.
Notes to Consolidated Financial Statements
December 31, 2008

As of December 31, 2008, the Consolidated Investment Funds were the buyers of credit default swaps ("receiving protection") on a total notional amount of $72.5 million and the sellers of credit default swaps ("providing protection") on a total notional amount of $387.1 million. The notional amount of the swaps is not recorded in the financial statements; however it approximates the maximum potential amount of future payments that the Consolidated Investment Funds could be required to make if they are the seller of protection and a credit event were to occur.

Those credit default swaps for which the Partnership provided protection at December 31, 2008 are summarized in the tables below. The reference obligations for all of these swaps are single issuers.

(in thousands of dollars)	Underlying Referenced Asset		
	Corporate Debt	**Collateralized Loan Obligation Securities**	**Total**
Fair value of credit default swaps	$ (109,184)	$ (48,875)	$ (158,059)
Maximum potential amount of future payme	328,110	59,000	387,110
Collateral posted with counterparties by the consolidated investment funds	152,787	18,563	171,350

(in thousands of dollars)	Maximum Potential Amount of Future Payments by Contract Term			
Current Credit Rating* on Underlying Bond	**1-5 Years**	**5-10 Years**	**Greater than 10 Years**	**Total**
BBB	$ (213,110)	$ -	$ (20,000)	$ (233,110)
BB	(40,000)	-	(24,000)	(64,000)
BB-	(10,000)	(15,000)	(5,000)	(30,000)
B+	(10,000)	-	-	(10,000)
B-	(20,000)	-	-	(20,000)
CCC+	(15,000)	-	-	(15,000)
CCC-	(15,000)	-	-	(15,000)
	$ (323,110)	$ (15,000)	$ (49,000)	$ (387,110)

The fair value of the credit default swaps for which the Consolidated Investment Funds purchased protection at December 31, 2008 was approximately $5.5 million.

9. Debt and Notes Payable

Consolidated debt and notes payable as of December 31, 2008 consists of:

(in thousands of dollars)		**December 31, 2008**
Partnership revolving credit facility	$	150,000
Credit Opportunities Master note payable		116,590
HFREC notes payable		98,482
Real Estate Fund revolving credit facility		20,000
HCM Trident		11,875
Partnership promissory note		875
	$	397,822

Revolving Credit Facilities

On January 26, 2007, the Partnership entered into a syndicated credit agreement with Bank of America as syndication agent and The Bank of Nova Scotia as administrative agent in the amount of $60 million (the "Credit Agreement"). The Credit Agreement provides for revolving loans which are scheduled to mature on June 30, 2009, or March 26, 2010 if certain derivative transactions are extended by the Partnership.

Interest is payable on the last day of each loan, or if the loan is greater than three months, then interest is payable in three month increments. The applicable spread for LIBOR loans under the Credit Agreement is LIBOR plus 1.75% per annum. For base rate loans, the spread is 0.50% per annum over the prevailing prime rate.

Under the terms of the Credit Agreement, the availability of credit was subject to financial covenants requiring the Partnership to maintain a minimum amount of fee earning assets under management, a minimum tangible net worth, and a maximum leverage ratio.

On March 20, 2007, the Credit Agreement was amended and restated, increasing the availability under the facility to $150 million and increasing the lender group to include five other banks. On November 2, 2007, the Credit Agreement was amended a second time to allow the Partnership to maintain certain insurance policies through an affiliate.

On December 19, 2008, the Partnership was notified by the Bank of Nova Scotia of an event of default under the terms of the Credit Agreement. The default was related to a failure to maintain a minimum tangible net worth. As a result, on December 24, 2008, the spread over LIBOR for LIBOR loans not maturing before December 31, 2008 increased to 3.75% per annum. On December 30, 2008, all LIBOR loans not maturing before December 31, 2008 were converted to base rate loans, with the applicable spread being 2.5% per annum. All other outstanding LIBOR borrowings with maturations prior to December 31, 2008 were financed at the applicable base rate. The note was subsequently refinanced in July 2009, see note 18.

The fair value of the facility as of December 31, 2008 was approximately $126.3 million.

In 2005, the CDO Master Fund entered into a credit agreement in the amount of $150 million (the "CDO Credit Agreement") with Citibank, N.A. and Citigroup Financial Products Inc. The CDO Credit Agreement was restated on the original maturity date of August 27, 2008. The restated agreement stated that equity cash flows earned on the assets in the facility would be pledged against the debt principal until paydown with no further drawdowns available. Interest is charged at Federal Funds open rate plus 1.50%. As of December 31, 2008, the facility had been paid back in full.

In February 2006, the Real Estate Fund entered into a credit agreement in the amount of $31 million (the "REF Credit Agreement") with Wachovia Bank. Interest is charged at LIBOR plus 2%. Interest is payable on the first day of each quarter. On September 29, 2008, the REF credit agreement was amended and restated, decreasing the availability under the facility to $25 million. Interest is charged at LIBOR plus 2.25%. As of December 31, 2008, $20 million was outstanding under the REF Credit Agreement and approximately $116.5 million of investments were pledged as collateral. The Partnership considers the book value of the line of credit at December 31, 2008 to approximate its fair value. As of December 31, 2008, Real Estate Fund was in payment default for its failure to make a required $5 million principal reduction payment. Real Estate Fund has subsequently received a forbearance agreement. See Note 16.

Term Loan
On July 6, 2007, HCM Trident entered into a term loan facility agreement (the "Facility Agreement") with Nomura International PLC in the amount of $26.25 million. The Facility Agreement is scheduled to mature on the July 6, 2008, unless extended. The Facility Agreement interest is charged at LIBOR plus 0.75% and is payable quarterly on July 6, October 6, January 6, and April 6.

On July 14, 2008, the Facility Agreement was amended to reduce the availability to $25 million. The Facility Agreement rate of interest was increased to 2.25% in excess of LIBOR. Interest is payable quarterly on July 6, October 6, January 6, and April 6.

On November 2, 2008, the Facility Agreement was amended to allow for periodic payments of principal and interest. The amortization schedule of the facility is as follows:

(in thousands of dollars) **Payment Date**	**Repayment Amount**
October 28, 2008	$ 1,000
November 3, 2008	5,000
December 15, 2008	4,000
February 16, 2009	3,000
March 16, 2009	2,000
April 15, 2009	2,000
May 15, 2009	2,000
June 15, 2009	2,800
	$ 21,800

As of December 31, 2008, the estimated fair market value of the facility was approximately equal to the carrying value.

Promissory Notes
On January 4, 2006, the Partnership received a promissory note (the "Promissory Note") from Compass Bank in the amount of $2 million. The Partnership must make monthly payments of principal and accumulated interest on the fifth day of each month. The Promissory Note will mature on February 1, 2011. On February 8, 2007, the Partnership and Compass Bank modified the Promissory Note, which reduced the interest rate from 2.0% to 1.7% in excess of LIBOR. The outstanding balance of the Promissory Note as of December 31, 2008 was $0.9 million. As of December 31, 2008, the estimated fair market value of the note was approximately equal to the carrying value.

Credit Opportunities Master Note Payable
On December 19, 2008, Highland Credit Opportunities CDO Financing, LLC ("CDO Financing"), a wholly owned subsidiary of Credit Opportunities Master, issued $122.4 million par value of senior secured convertible notes and received cash proceeds of $115.6 million and investment securities with an estimated fair value of $0.9 million. The notes are governed by a Note Purchase Agreement (the "Purchase Agreement") and guaranteed by Credit Opportunities Master and Highland Credit Opportunities, Ltd. (the "CDO"). At the note holders' option, the unpaid principal and accrued interest on the notes may be converted, in whole or in part, to limited partnership interests in the Feeder Fund or Credit Opportunities Master between January 1, 2010 and December 31, 2012. Subject to certain conditions, the Purchase Agreement also allows for CDO Financing to issue up to $106.7 million par value of additional notes to the existing note holders in exchange for proceeds of $101.4 million.

The proceeds from the notes were used primarily to fund an additional equity investment in the CDO. This investment was required under the terms of a forbearance agreement that Credit Opportunities Master executed with the Majority Controlling Class of the CDO's note holders.

The notes have a stated maturity date of December 31, 2012 and accrue interest on a quarterly basis at a rate of 25% per annum. In addition, the Purchase Agreement requires payment of a 2.5% fee on the unfunded portion of the note commitment.

Credit Opportunities Master may elect to prepay up to 50% of the outstanding principal balance from July 1, 2010 through December 31, 2010. After that period, Credit Opportunities Master may prepay all or a portion of the outstanding principal, provided that each partial payment made to the note holders is in an aggregate principal amount of at least $0.5 million.

The Agreement requires Credit Opportunities Master to pay the following fees, as a percentage of the principal balance, in the event of a prepayment:

Prepayment Period	Fees
July 1, 2010 - December 31, 2010	15.0%
July 1, 2011 - December 31, 2011	10.0%
July 1, 2012 - December 31, 2012	6.0%

The Purchase Agreement grants the note holders a lien on certain assets held by Credit Opportunities Master and the CDO. In addition, it requires Credit Opportunities Master and the CDO to comply with various financial covenants. Failure to meet these covenants may result in an event of default and give the note holders the right to accelerate repayment of the debt or initiate a liquidation of certain assets. Credit Opportunities Master was not in technical compliance with a liquidity calculation specified in the debt covenants as of December 31, 2008. However, the calculation was in compliance with covenants as of January 31, 2009.

As of December 31, 2008, the estimated fair market value of the notes was approximately equal to the par value.

HFREC Notes Payable

HE Sugar Land Project, LLC "HE Sugar Land" Note Payable

On August 27, 2007, HE Sugar Land assumed a mortgage loan from KeyBank Real Estate Capital secured by the underlying property in HE Sugar Land. The note had an original principal balance of $46 million and a balance of $43.4 million on the date of assumption. HE Sugar Land paid an assumption fee of $0.2 million and deposited $5.3 million into a reserve fund in connection with the assumption of the note. The note accrues interest at a fixed rate of 7.72% per annum. The note matures with all principal and accrued interest due on July 11, 2011. The monthly payment for principal and interest is $0.3 million and is due on the eleventh of each month. As of December 31, 2008, the estimated fair market value of the note was approximately equal to the carrying value.

HE 1001 West Loop Project, LLC "1001 West Loop" Note Payable

On December 13, 2007, 1001 West Loop entered into a $19.5 million loan with affiliates of the Partnership, which is secured by the underlying property in 1001 West Loop (the "Term Loan"). The Term Loan matures with all principal and accrued interest due on December 13, 2012. The Term Loan bears interest at a rate of 3.5% plus 90-day LIBOR, set on the 13th day of every third month (5.5% on December 31, 2008). Interest payments are due on the first day of the third month after the date of the Term Loan agreement, and on the first day of every third month thereafter.

In addition, 1001 West Loop entered into a $6.5 million loan with affiliates of the Partnership on December 13, 2007, which is secured by a pledge of 1001 West Loop's ownership interests in its subsidiaries and the Manager's Subordination of Property Management Agreement (the "Mezz Loan"). The Mezz Loan matures with all principal and accrued interest due on December 31, 2012. The Mezz Loan bears interest at a fixed rate of 12%. Interest payments are due on the first day of the third month after the date of the Mezz Loan agreement, and on the first day of every third month thereafter.

As of December 31, 2008, the estimated fair market values of the notes were approximately equal to their carrying values.

HE 2425 West Loop Project, LLC "2425 West Loop" Note Payable

On December 13, 2007, 2425 West Loop entered into a $22.9 million loan with affiliates of the Partnership, which is secured by the underlying property in 1001 West Loop (the "Term Loan"). The Term Loan matures with all principal and accrued interest due on December 13, 2012. The Term Loan bears interest at a rate of 3.5% plus 90-day LIBOR, set on the 13th day of every third month (5.5% on December 31, 2008). Interest payments are due on the first day of the third month after the date of the Term Loan agreement, and on the first day of every third month thereafter.

In addition, 2425 West Loop entered into a $7.6 million loan with affiliates of the Partnership on December 4, 2007, which is secured by a pledge of 1001 West Loop's ownership interests in its subsidiaries and the Manager's Subordination of Property Management Agreement (the "Mezz Loan"). The Mezz Loan matures with all principal and accrued interest due on December 31, 2012. The Mezz Loan bears interest at a fixed rate of 12%. Interest payments are due on the first day of the third month after the date of the Mezz Loan agreement, and on the first day of every third month thereafter.

As of December 31, 2008, the estimated fair market values of the notes were approximately equal to their carrying values.

HCREA Nolen Drive, L.P. ("Nolen Drive") Note Payable
On September 18, 2006, Nolen Drive entered into a $7.1 million note payable with Artesia Mortgage Capital Corporation, which is secured by the underlying property in Nolen Drive (the "Term Loan"). The Term Loan matures with all principal and accrued interest due on October 11, 2011. The Term Loan bears interest at a rate of 6.52% per annum. Payments are due on the 11^{th} of every month. As of December 31, 2008, the estimated fair market value of the note was approximately equal to the carrying value.

10. Financial Instruments with Concentration of Credit and Other Risks

Financial Instruments
The Partnership and its consolidated entities' investments include, among other things, equity securities, debt securities (both investment and non-investment grade) and bank loans. The consolidated entities may also invest in derivative instruments, including total return and credit default swaps. Investments in these derivative instruments throughout the year subject the consolidated entities to off-balance sheet market risk, where changes in the market or fair value of the financial instruments underlying the derivative instruments may be in excess of the amounts recognized in the consolidated balance sheet.

Market Risk
Market risk represents the potential loss that may be incurred by the Master Partnership due to a change in the market value of its investments or the value of the investments underlying swap agreements. The Partnership and its Consolidated Investment Fund's exposure to market risk is affected by a number of factors, including the size, composition and diversification of its investments and swap agreements; interest rates; and market volatility. The Partnership and its Consolidated Investment Funds use various forms of leverage, including notes, which increase the effect of any investment value changes on partners' capital.

Credit Risk
Credit risk is the potential loss the Partnership and its consolidated entities may incur as a result of the failure of a counterparty or an issuer to make payments according to the terms of a contract. Because the consolidated entities enter into over-the-counter derivatives such as swaps, it is exposed to the credit risk of their counterparties. To limit the credit risk associated with such transactions, the consolidated entities execute transactions with financial institutions that the Investment Manager believes to be financially viable.

Liquidity Risk
The Consolidated Investment Fund's limited partner interests have not been registered under the Securities Act of 1933 or any other applicable securities law. There is no public market for the interests, and neither the Consolidated Investment Funds nor their manager expect such a market to develop.

Business Risk
The Partnership provides advisory services to the consolidated investment funds. The Consolidated Investment Funds could be materially affected by the actions and liquidity of the Partnership.

High Yield Bonds and Loans
The Partnership and its Consolidated Investment Funds may invest in high-yield bonds that have been assigned a lower rating categories or are not rated by various credit rating agencies. Bonds in the lower rating categories are generally considered to be speculative with respect to the issuer's ability to repay principal and pay interest. They are also subject to greater risks than bonds with higher ratings in the case of deterioration of general economic conditions. Due to these risks, the yields and prices of lower-rated bonds are generally volatile, and the market for them is limited, which may affect the ability to liquidate them if needed. In addition, certain of the Consolidated Investment Funds' investments have resale or transfer restrictions that further reduce their liquidity. The Consolidated Investment Funds also invest in senior secured syndicated bank loans and enter into direct contractual relationships with the corporate borrowers. As such, the Partnership and its Consolidated Investment Funds are exposed to certain degrees of risk, including interest rate risk, market risk and the potential non-payment of principal and interest, including default or bankruptcy of the corporate borrower.

The current economic recession has severely disrupted the market for most high-yield bonds and loans and may continue to have an adverse effect on the value of such instruments. It is also probable that the economic downturn could adversely affect the ability of the issuers of such securities to repay principal and interest thereon and increase the incidence of default for such securities.

CLO Equity Investments
The Partnership and its Consolidated Investment Funds may invest in CLO equity that are not rated by various credit rating agencies and are generally considered to be speculative with respect to the issuer's ability to repay principal and interest. The yields and prices of these non-rated CLO equity tranches are generally volatile, and the market for them is limited, which may affect the ability to liquidate them if needed. In addition, certain of the Consolidated Investment Funds' investments have resale or transfer restrictions that further limit their liquidity. Given a backdrop of deteriorating general economic conditions, the Partnership and its consolidated investment funds are exposed to the potential non-payment of principal and interest from their CLO equity investments. As of December 31, 2008, 25 of the 30 CLOs managed by the Partnership paid interest to the equity holders on their last payment date.

Distressed Investments
A portion of the high yield corporate bonds and senior secured syndicated bank loans in which the Partnership and its Consolidated Investment Funds invest have been issued by distressed companies in an unstable financial condition. These investments have substantial inherent risks. Many of these distressed companies are likely to have significantly leveraged capital structures, which make them highly sensitive to declines in revenue and to increases in expenses and interest rates. The leveraged capital structure also exposes the companies to adverse economic factors, including macroeconomic conditions.

Credit Default Swaps
Credit default swaps involve greater risks than if the Partnership or its Consolidated Investment Funds had shorted the reference obligations directly. In addition to the market risk discussed above, credit default swaps are subject to liquidity risk and credit risk. If a credit event occurs, the value of the reference obligation received by the Partnership or its Consolidated Investment Funds, couple with the periodic payments previously received, may be less than the full notional amount it pays to the buyer, resulting in loss of value.

Limited Diversification
The Investment Manager attempts to diversify the Consolidated Investment Funds' investments. However, the Consolidated Investment Funds' portfolio could become significantly concentrated in any one issuer, industry, sector strategy, country or geographic region, and such concentration of credit risk may increase the losses suffered by the Consolidated Investment Funds. In addition, it is possible that the Investment Manager may select investments that are concentrated in certain classes of financial instruments. This limited diversity could expose the Consolidated Investment Funds to losses that are disproportionate to market movements as a whole.

Custody Risk
The clearing operations for the Partnership and its Consolidated Investment Funds are provided by major financial institutions. In addition, all of the Partnership and its Consolidated Investment Funds' cash and investments are held with banks or brokerage firms, which have worldwide custody facilities and are members of all major securities exchanges. The Partnership or its Consolidated Investment Funds may lose all or a portion of the assets held by these banks or brokerage firms if they become insolvent or fail to perform pursuant to the terms of their obligations. While both the U.S. Bankruptcy Code and the Securities Investor Protection Act of 1970 seek to protect customer property in the event of a broker-dealer's failure, insolvency or liquidation, the Partnership and its Consolidated Investment Funds' might be unable to recover the full value of their assets or incur losses due to their assets being unavailable for a period of time.

Leverage Risk
The Consolidated Investment Funds may borrow funds from brokers, banks and other lenders to finance its trading operations. The use of leverage can, in certain circumstances, magnify the losses to which the Consolidated Investment Funds' investment portfolio may be subject. The use of margin and short-term borrowings creates several risks for the Consolidated Investment Funds. If the value of the Consolidated Investment Funds' securities fall below the margin level required by a counterparty, additional margin deposits are required. If the Consolidated Investment Funds are unable to satisfy a margin call, the counterparty could liquidate the position in some or all of the financial instruments that are in the account at the prime broker and cause the Consolidated Investment Funds to incur significant losses.

The failure to satisfy a margin call, or the occurrence of other material defaults under margin or other financing agreements, may trigger cross-defaults under the Consolidated Investment Funds' agreements with other brokers, lenders, clearing firms or other counterparties, multiplying the adverse impact to the Consolidated Investment Funds. In addition, because the use of leverage allows the Consolidated Investment Funds to control positions worth significantly more than its investment in those positions, the amount that the Consolidated Investment Funds may lose in the event of adverse price movements is high in relation to the amount of their investment.

In the event of a sudden drop in the value of the Consolidated Investment Funds' assets, the Consolidated Investment Funds may not be able to liquidate assets quickly enough to satisfy their margin or collateral requirements. As a result, the Consolidated Investment Funds may become subject to claims of financial intermediaries, and such claims could exceed the value of its assets. The banks and dealers that provide financing to the Consolidated Investment Funds have the ability to apply discretionary margin, haircut, financing and collateral valuation policies. Changes by banks and dealers in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions and disadvantageous prices.

Foreign Currency Risk
The Partnership and its Consolidated Entities may invest in securities or maintain cash denominated in currencies other than the U.S. dollar. The Partnership and its Consolidated Entities are exposed to risk that the exchange rate of the U.S. dollar relative to other currencies may change in a manner that has an adverse effect on the reported value of the Partnership and its Consolidated Entities' assets and liabilities denominated in currencies other than the U.S. dollar.

Concentration of Investments
At December 31, 2008, the Partnership and Consolidated Investment Funds' investments and derivative contracts were predominantly concentrated in the United States and the Cayman Islands and across several industries.

Wind-Down Risk
The ultimate proceeds that the Consolidated Investment Funds' are able to realize on the sale of its investments will directly affect the amounts that the investors in the Feeder Funds are able to redeem in connection with the wind down process. These amounts may differ materially from the partners' capital balances as of December 31, 2008.

Litigation Risk
The Partnership and its Consolidated Investment Funds are periodically subject to legal actions arising from the ordinary course of business. In addition, certain of the Consolidated Investment Funds' Feeder Fund investors have filed lawsuits after receiving notification of the decision to wind-down certain Consolidated Investment Funds' investment portfolios (Note 16). Refer to Note 17 for a discussion of the open litigation.

11. Related Party Transactions

Expenses Reimbursable by Funds Managed
In the normal course of business, the Partnership typically pays invoices it receives from vendors for various services provided to the investment funds the Partnership manages. A summary of these eligible reimbursable expenses are then submitted to the trustee/administrator for each respective fund, typically on a quarterly basis, and the Partnership receives payment as reimbursement for paying the invoices on behalf of the respective funds. As of December 31, 2008, approximately $18.8 million in reimbursable expenses were due from various affiliated funds and entities for these eligible expenses, and is included in *Other current assets* in the accompanying consolidated balance sheet.

Long Term Incentive Plan and Intercompany Loan Payable to Highland Capital Management Services, Inc. ("HCMSI")
Effective January 1, 2001, all of the Partnership's employees were transferred to HCMSI, which provides personnel management and consulting services to the Partnership. The Partnership and HCMSI entered into a management agreement whereby the Partnership compensated HCMSI for its employee expenses plus a consulting services fee. As of January 1, 2005, there were no further transactions with HCMSI as all employees were transferred to the Partnership.

Effective January 1, 2001, HCMSI approved a long-term incentive plan ("the LTIP") for select employees who are eligible to receive Long-Term Incentive Units ("the Units") under the LTIP. The number of Units authorized under the LTIP is 30,000,000 and a majority of the Units granted vest 40% during the grant year and 30% for each of the two years thereafter, expiring 10 years after such grant date, unless different terms are agreed upon between the Plan Administrator and the employee. The fair value of the Units are based upon the fair value of the Partnership, as determined in good faith, by James Dondero, the Plan Administrator and the sole shareholder of the general partner and a limited partner of the Partnership. The LTIP was transferred to the Partnership from HCMSI on January 1, 2005.

The Units are exercisable at the discretion of the Plan Administrator, or upon a triggering event defined as the earlier of the following events:

- Change in control
- Initial public offering
- Participant's voluntary or involuntary termination due to death, disability, retirement, or hardship
- Participant's voluntary or involuntary termination other than due to death, disability, retirement, hardship, or cause is exercisable to the extent the Participant is entitled to only 80% of the vested shares.

A total of 3,425,074 Units are outstanding as of December 31, 2008 under the LTIP. During the year ended December 31, 2008, a total of 350,366 Units were exercised. These exercised Units reverted back to the LTIP. During the year ended December 31, 2008, the liability under the LTIP decreased by approximately $38.1 million, which is included in Compensation and benefits in the consolidated statement of income.

The total balance payable to HCMSI was approximately $3.8 million as of December 31, 2008, which is related to the LTIP accrual.

Effective December 31, 2004, all of the employees at HCMSI were transferred to the Partnership, and the management agreement between the Partnership and HCMSI was terminated as to the provision of future services. However, all of the outstanding and unfunded obligations of the Partnership to HCMSI as of December 31, 2004, as well as any additional obligations that may arise in relation to these amounts, will continue to be due and payable to HCMSI until satisfied in accordance with the provisions of the agreements in place.

Accounts Held with Related Party
During the year the Partnership and its subsidiaries maintained accounts at NexBank, SSB ("NexBank"), a related party by way of common control. As of December 31, 2008, balances in the accounts were approximately $15.8 million. Approximately $0.1 million of interest was earned on this account for the year ended December 31, 2008.

Controlling Positions
Various members of the Partnership's management serve as members on the Boards of Directors for some of the companies with which it invests. Because these individuals participate in the management of these companies, investments held by the Partnership and its subsidiaries in these companies may, from time to time, not be freely tradable. Any director's fees received by the Partnership for these services as directors are paid to and retained by the Partnership. As of December 31, 2008, the Partnership and its subsidiaries held the following investments in these companies:

(in thousands of dollars)

Issuer	Type of Investment	Fair Value
American Banknote Corporation	Common Equity	$ 15,161
Complete Genomics	Common Equity	16,000
Cornerstone Healthcare Group Holding, Inc.	Common Equity	17,857
Highland Financial Corporation	Common Equity	2,871
Legacy Pharmaceuticals	Common Equity	385
Marcal paper Mills, LLC	Common Equity	55
Nex-Tech Aerospace Holdings, Inc.	Common Equity	5,533
Romacorp Restaurant Holdings, Inc.	Common Equity	767
Safety-Kleen Inc.	Common Equity	183,720
Trussway Industries, Inc.	Common Equity	11,519
Blackwell BMC, LLC	Common Equity	17,225
Epocal, Inc.	Preferred Equity	76,403
Solstice Neurosciences, Inc.	Preferred Equity	10,700
Terrestar Corporation	Preferred Equity	60,250
Highland Distressed Opportunities Fund	Closed-End Mutual Fund	2,140
Highland Credit Strategies Fund	Closed-End Mutual Fund	3,607
Highland Special Situations Fund	Mutual Fund	2,094
Highland Long/Short Equity Fund	Mutual Fund	193
Highland High Income Fund	Mutual Fund	177
Highland Income Fund	Mutual Fund	330
Highland Healthcare Fund	Mutual Fund	2,295
Broadstripe Holdings, LLC	Loan Revolver	1,986
Home Interiors & Gifts, Inc.	Loan Revolver	5,024
Legacy Pharmaceuticals	Loan Revolver	(871)
Home Interiors & Gifts, Inc.	Initial Term Loan	18,988
Consolidated Restaurant Companies, Inc.	Term Loan	9,366
Blackwell BMC, LLC	Term Loan	2,376
Decision One Corporation	Term Loan	1,000
Legacy Pharmaceuticals	Term Loan	13,121
Broadstripe Holdings, LLC	Term Loan - First Lien	7,806
Cornerstone Healthcare Group Holding, Inc.	Loan - Second Lien	24,014
Broadstripe Holdings, LLC	Term Loan - Second Lien	8,918
Decision One Corporation	Term Loan B	1,601
Highland Financial Partners, L.P.	Long-Term Debt	15,661
Home Interiors & Gifts, Inc.	Swap	(9,878)

During the year ended December 31, 2008, the Partnership earned approximately $0.3 million of income from those entities where members of management serve as members of the Board of Directors. The amount is included in Other income in the consolidated statement of income.

Real Estate Partnerships
The Partnership and its principals serve as the general partner of the general partner of various partnership investments in the Real Estate Fund and Highland Financial Real Estate Corporation. Such investments are listed below:

(in thousands of dollars)

Limited Partnership		Value
HE Sugar Land Project, LLC	$	13,719
HCREA Prosper Crossing West, L.P.		13,632
HCREA Canyon Falls		10,175
HCREA Prosper Crossing East, L.P.		8,983
HCREA Canyon Falls Town Center, L.P.		8,511
HCREA Kings Wood		6,672
HCREA Indian Creek, L.P.		5,467
HCREA Terrell Land, L.P.		5,124
HE 2425 West Loop Project, LLC		4,415
HE 1001 West Loop Project, LLC		3,922
HCREA Wilcox 190, L.P.		3,629
HCREA Celina Springs, L.P.		3,504
HE Mezz KR, LLC		3,133
HCREA The Tribute, L.P.		2,986
HCREA Nolen Drive, L.P.		2,193
HCREA Wylie Partners I, L.P.		1,764
HCREA Princeton 380, L.P.		1,411
HCREA Highland Village, L.P.		1,202
HCREA Lockhill, Retail, L.P.		1,049
HCREA Pilot Point Land, L.P.		1,030
HCREA Grey Walls, L.P.		880
Highland Capital Terrell Investment Partners, L.P.		565
HCREA Embarcadero, L.P.		278
HCREA Hutchins Truck Service, L.P.		110
HCREA Trimarchi of North Dallas, L.P.		-
HCREA Court Glen, L.P.		-
HCREA Breckenridge, L.P.		-

Investment in Affiliated Loans
During the year, certain subsidiaries of the Partnership were invested in several bank loans in which NexBank, SSB, an affiliate of the Partnership, was the agent bank. Interest earned on the loans during the year was approximately $27.8 million. At December 31, 2008, these subsidiaries were invested in NexBank, SSB agented loans with commitments and market values totaling approximately $462.1 million and $175 million, respectively.

Notes to Affiliates
On July 31, 2006, the Partnership issued a promissory note in the amount of $400,000 to an employee of an affiliate. The note accrued interest at the mid-term applicable federal rate as promulgated by the Internal Revenue Service. The note is payable in one lump sum on the earlier of July 31, 2010 or an event of acceleration. In July 2008, the remaining balance of the promissory note was forgiven.

On August 1, 2008, the Partnership issued a promissory note in the amount of $500,000 to an employee of a subsidiary. The note accrues interest at a rate of LIBOR plus 1.75%, compounded quarterly. The note is payable in one lump sum on the earlier of August 1, 2011 or an event of acceleration. As of December 31, 2008, the principal amount on the promissory note was $500,000 with interest accrued of approximately $15,000.

On May 21, 2007, the Partnership issued two loans to employees of a subsidiary aggregating $2.0 million, each with a principal balance of $1.0 million. The note accrues interest at a rate of LIBOR plus 1.75%, compounded quarterly. The principal balance plus all accrued interest is due on the earlier of May 1, 2010 or an event of acceleration. During 2008, 30% of the outstanding principal of each loan was forgiven. As of December 31, 2008, each loan principal was $0.7 million, with interest accrued of approximately $65,000.

On August 20, 2008, the Partnership issued a promissory note in the amount of $330,000 to an employee of the Partnership. The note accrues interest at a rate of LIBOR plus 1.75%. The note is payable in one lump sum on the earlier of August 20, 2015 or an event of acceleration. As of December 31, 2008, the principal amount on the promissory note was $330,000 with interest accrued of approximately $5,000.

On August 1, 2008, the Partnership issued a promissory note in the amount of $500,000 to an employee of a subsidiary. The note accrues interest at a rate of LIBOR plus 1.75%, compounded quarterly. The note is payable in one lump sum on the earlier of August 1, 2011 or an event of acceleration. As of December 31, 2008, the principal amount on the promissory note was $500,000 with interest accrued of approximately $9,000.

On October 15, 2008, the Partnership issued a promissory note in the amount of $500,000 to an employee of a subsidiary. The note accrues interest at a rate of LIBOR plus 1.75%, compounded quarterly. The note is payable in one lump sum on the earlier of October 15, 2011 or an event of acceleration. As of December 31, 2008, the principal amount on the promissory note was $500,000 with interest accrued of approximately $4,000.

On December 19, 2007, the Partnership issued a promissory note in the amount of $30 million to a subsidiary of HFP. The note accrues interest quarterly on the principal balance on the last business day of each quarter ending March 31, June 30, September 30, and December 31 at a rate equal to the Fed Funds Rate as published by the Federal Reserve Bank of New York on the Business Day next succeeding each quarter end. The note is payable in $5 million quarterly installments commencing June 30, 2008 and is due and payable in full on June 30, 2009, subject however to acceleration. All payments are first applied to interest and then to principal. In July 2008, the Partnership received six million common units of HFP through a conversion of the promissory note at a conversion price of $5 per common unit.

On September 12, 2008, the Partnership issued a promissory note in the amount of $13.9 million to a subsidiary of HFP. The note accrues interest monthly on the principal balance on the last business day of each month at a rate equal to the Fed Funds Rate as published by the Federal Reserve Bank of New York on the Business Day next succeeding each month end. As of December 31, 2008, the principal amount on the promissory note was $0.9 million.

Investments in Affiliates
The Partnership and its subsidiaries are the investment/collateral manager for approximately $69.2 million of the CDO Master Fund's investments, consisting of United States and European Floating Rate CLO Mezzanine Tranches, Residual CLO Equity Tranches, common stock, Investment Funds, total return swaps, credit default swaps, long-term debt and claims. During the year, CDO Master Fund earned interest income of $74.9 million and net realized/unrealized losses on investment transactions of $386 million from related party investments.

In 2006, the Partnership was granted 124,468 restricted HFP units and 809,263 non-qualified HFP unit options. The options were granted with a strike price of $15.00 and $16.50 per unit. Both the restricted units and options vest in thirds on the anniversary of the grant date. In 2008, 41,489 and 273,087 of restricted units and options vested, respectively. Of the options that vested, 114,476 were exercised at a strike price of $15.

On June 25, 2008, HCSA received an in kind distribution of 3,049,732 units of HFP in lieu of their incentive allocation balance. The conversion of HCSA's incentive allocation balance to HFP units implied a conversion price of $5 per unit.

On September 26, 2008, HFP issued $316 million of senior secured notes to the Consolidated Investment Funds in exchange for an interest in certain assets which included collateralized loan obligation securities. Due to a lack of a transfer of control caused by certain restrictive covenants associated with the exchange, these assets continue to be recognized on the Consolidated Statement of Assets, Liabilities and Partners' Capital of the Consolidated Investment Funds. Upon full payment of the outstanding principal of the senior secured notes, the restrictive covenants of the assets will be satisfied and HFP will have unencumbered interests in the assets. The Consolidated Investment Funds have recorded a liability to account for the future release of the assets, which is classified on their balance sheets as Obligation to return collateral. The Consolidated Investments Funds elected to apply the fair value option prescribed by SFAS No. 159 when they first recognized the liability, which resulted in the liability being carried at the same value as the assets in aggregate. Accordingly, the change in the fair value of the liability between September 26 and December 31, 2008 has been recognized as an unrealized gain. As discussed in Note 18, the senior secured notes were terminated subsequent to December 31, 2008.

Charitable Contributions
One of the Partnership's limited partners serves on the board of directors of Grace Ministries, a not-for-profit organization. During the year, the Partnership made a charitable contribution of $0.1 million to Grace Ministries. This amount is presented in Other operating expenses.

Services Performed by an Affiliate
In March 2007, Highland Capital of New York, L.P., a New York limited partnership ("Highland New York"), was formed and has performed marketing services for the Partnership and its affiliates in connection with the Partnership's investment management and advising business, including, but not limited to, assisting Highland Capital in the marketing and sales of interests in investment pools for which Highland Capital serves as the investment manager. The Partnership is charged a marketing services fee for the services that Highland New York performs on the Partnership's behalf. For the year ended December 31, 2008, total marketing fee expense charged to the Partnership by Highland New York was approximately $4.8 million and as of December 31, 2008, amounts owed to Highland New York for services rendered was approximately $2.4 million.

Participation Agreement
The Partnership and its Consolidated Investment Funds purchased protection under credit default swaps referencing residential mortgage-backed collateralized debt obligations during the year. The Partnership and some of its Consolidated Investment Funds along with an affiliated entity under common control (collectively, the "Participants") entered into related participation agreements (collectively, the "Agreements") at the time the positions were established. During the year, the Participants traded credit default swaps with a notional value of approximately $294.8 million that were governed under the Agreements with the Participants. As of December 31, 2008, all Agreements between the Participants were closed.

Letter of Credit
In April 2007, the Partnership entered into a $4 million standby letter of credit ("LC") on behalf of one of its Consolidated Investment Funds with the Bank of Nova Scotia. Interest is charged at 1.95%. As of December 24, 2008, the rate of interest had increased to 3.95%. As of December 31, 2008, there were no amounts drawn against the LC. Any interest paid by the Partnership on behalf of the Consolidated Investment Fund is reimbursed through an investment in the fund. For the year ended December 31, 2008, $0.1 million of interest had been paid by the Partnership on the funds behalf.

Notes from Affiliates
On April 15, 2008, the Partnership entered into a $24.6 million promissory note with an employee of the Partnership. The note accrues interest at a rate of 6% per annum, compounded annually and is payable upon demand. As of December 31, 2008, the principal amount on the promissory note was $3.5 million with interest accrued of approximately $12,000.

On April 15, 2008, the Partnership entered into an $8.2 million promissory note with an employee of the Partnership. The note accrues interest at a rate of 6% per annum, compounded annually and is payable upon demand. As of December 31, 2008, the principal amount on the promissory note was $4 million with interest accrued of approximately $17,000.

On October 3, 2008, the Partnership entered into a $2 million promissory note with Governance RE, Ltd ("Gov Re"). The note accrues interest at a rate of LIBOR plus 1.75%, compounded annually and is payable on demand. As of December 31, 2008, the principal amount on the promissory note was $2 million with interest accrued of approximately $28,000.

Loans to Affiliates
During 2008 the Partnership entered into short-term, non-interest bearing loans to its Consolidated Investment Funds and affiliates. The total amount of borrowings made to the Consolidated Investment Funds and affiliates in 2008 was approximately $127.7 million. As of December 31, 2008, all amounts borrowed had been repaid to the Partnership.

Intercompany Balance
During 2008, the Partnership and an affiliate engaged in a series of short-term, non-interest bearing transactions. The affiliate's primary function is to provide personnel management and consulting services to the Partnership. As of December 31, 2008, the Partnership's intercompany liability to the affiliate was $20.7 million.

12. Rentals Under Operating Leases

The following is a schedule of future rental payments on noncancelable tenant operating leases for properties consolidated by HFREC at December 31, 2008. The schedule does not include any amounts due from tenants upon the exercise of renewal options under certain leases. The underlying companies consolidated by HFREC also received reimbursements from tenants for certain common area maintenance ("CAM") expenses, which may include CAM costs, insurance and real estate taxes. Reimbursements for insurance and real estate taxes are not included in the following schedule.

(in thousands of dollars)

Years Ending December 31,		
2009	$	15,224
2010		7,841
2011		4,666
2012		3,703
2013		2,827

13. Commitments

Contracts in the Normal Course of Business
In the normal course of business the Partnership and its subsidiaries may enter into contracts which provide general indemnifications and contain a variety of presentations and warranties that may expose the Partnership and its subsidiaries to some risk of loss. In addition to the other financial commitments discussed in the consolidated financial statements, the amount of future losses arising from such undertakings, while not quantifiable, is not expected to be significant.

Legal Proceedings
The Partnership is a party to various legal proceedings arising in the ordinary course of business. While any proceeding or litigation has an element of uncertainty, management believes that the final outcome will not have a materially adverse effect on the Partnership's consolidated balance sheet, consolidated statement of income, or its liquidity.

Warehouse Guarantee
On July 6, 2007, the Partnership was a party to a warehouse agreement as a first loss guarantor. HCM Trident entered into the warehouse agreement and is entitled to the positive net carry or is required to pay the negative net carry. The Partnership guaranteed the payment of the negative net carry owed by HCM Trident. This guarantee was capped at 25% of the initial purchase price of the warehouse assets of $25.7 million, or approximately $6.4 million plus accrued interest. The Partnership fronted $3.8 million to HCM Trident as a deposit for the first loss guarantee.

On July 14, 2008, the warehouse agreement was amended to reflect the Partnership guaranteeing 100% of the negative net carry. The Partnership posted an additional $1.5 million, for a total guarantee deposit on hand of $3.1 million, net of any prior loss amounts.

On November 2, 2008, the warehouse agreement was amended to reflect the Partnership guaranteeing any credit facility amortization payments of principal and interest on HCM Trident's behalf. As of December 31, 2008, the remaining balance on the facility with accrued interest was approximately $12.3 million.

Operating Leases
Future minimum lease payments under operating lease commitments of the Partnership and its consolidated entities with initial or noncancelable terms in excess of one year, at inception, are as follows:

(in thousands of dollars)

Years Ending December 31,		
2009	$	2,354
2010		2,230
2011		2,022
Thereafter		-
	$	6,606

Total rental expense of the Partnership and its consolidated entities for operating leases was approximately $4.9 million for the year ended December 31, 2008.

Loan Commitments
Loan and other participation interests purchased by the Consolidated Investment Funds such as bank debt and trade claims may include accompanying letters of credit, revolving credit arrangements or other financing commitments obligating the Consolidated Investment Funds to advance additional amounts on demand. At December 31, 2008, the Consolidated Investment Funds had outstanding loan commitments of approximately $70.8 million. The total amount of outstanding commitments does not necessarily reflect the actual future cash requirements, as commitments may expire unused.

14. Postretirement Benefits

In December 2006, the Partnership created a defined benefit plan to which all employees and certain affiliated persons could participate if they met the eligibility requirements. The Partnership uses a December 31 measurement date for its defined benefit plan.

Effective December 31, 2008, the Partnership amended the plan by freezing it to new participants and additional benefit accruals. Therefore, no new participants shall enter the plan after 2008 and no new benefits shall accrue under the plan after 2008. The Partnership's benefit plan obligation and plan assets for the year ended December 31, 2008 are reconciled in the tables below.

(in thousands of dollars)

Change in projected benefit obligation		**2008**
Benefit obligation at commencement of plan	$	4,486
Service cost		2,608
Interest cost		254
Plan participants' contributions		-
Amendments		-
Actuarial loss/(gain)		(3,008)
Acquisition/(divestiture)		-
Benefits paid		(797)
Benefit obligation at end of year	$	3,543

Change in plan assets		**2008**
Fair value of plan assets at commencement of the plan	$	2,588
Actual return on plan assets		(2,783)
Acquisition/(divestiture)		-
Employer contribution		2,138
Plan participants' contributions		-
Benefits paid		(797)
Other increase/(decrease)		-
Fair value of plan assets at year end	$	1,146

Reconciliation of Funded Status		**2008**
Accumulated benefit obligation at end of year	$	3,543
Projected benefit obligation at end of year		3,543
Fair value of assets at end of year		1,146
Funded status at end of year	$	(2,397)

The Partnership expects to contribute $2.6 million to the plan during 2009.

Assumptions
Weighted-average assumptions used to determine benefit obligations at December 31, 2008:

Discount rate	6.30%
Rate of compensation increase	N/A

Weighted-average assumptions used to determine net periodic benefit cost at December 31, 2008:

Discount rate	6.50%
Expected long-term return on plan assets	6.50%
Rate of compensation increase	N/A

15. Goodwill, Other Intangible Assets and Purchased Investment Management Contracts

Below is a summary of the Partnership's goodwill and other intangible assets as of December 31, 2008:

(in thousands of dollars)		**Carrying Value**
Lease intangibles, net	$	14,425
Highland Floating Rate Fund		12,672
Highland Floating Rate Advantage Fund		11,328
Goodwill for Highland Europe		8,020
Licenses		2,021
Patents		1,008
	$	49,474

On April 9, 2004, the Partnership purchased the management agreements Highland Floating Rate Fund (the "Floating Rate Fund") and Highland Floating Rate Advantage Fund (the "Advantage Fund"). The combined purchase price for the above agreements was $24.0 million. The purchase price was allocated among the Purchased Funds pro-rata based on the approximate combined total managed assets of the funds as of the date of purchase. As a result, $12.7 million of the purchase price was allocated to the Floating Rate Fund and $11.3 million was allocated to the Advantage Fund.

On January 21, 2000, the Partnership purchased the investment advisory agreement for Prospect Street High Income Shares, Inc. ("PHY"), a diversified, closed-end RIC. The purchase price was approximately $11.9 million.

On July 31, 2001, the Partnership purchased the investment advisory agreement for Prospect Street Income Shares, Inc. ("CNN"), a diversified, closed-end RIC. The purchase price was approximately $2.2 million.

On July 21, 2008, PHY and CNN were reorganized into Highland Credit Strategies Fund. The reorganization was based on the respective Funds' relative net asset values as of 4:00 p.m. on Friday July 18, 2008. As PHY and CNN ceased to exist after the reorganization, the prior capitalized costs of $5.7 million for the purchased investment advisory agreements were recognized into income.

For the remaining purchased investment advisory agreements, the Partnership performed an impairment test under SFAS No. 142. The Partnership's management analyzed market multiples on retail asset managers within the industry as of December 31, 2008 to determine fair value of these assets. The Partnership has determined no impairment charge is necessary for the current year.

On December 17, 2007, HySky, LLC ("HySky") purchased all of the assets and liabilities of Equitas, LLC for approximately $3.8 million. Through this purchase, HySky obtained two patents with a purchase price value of $1.1 million and an FCC license with a value of $2.2 million. As of December 31, 2008, $0.3 million in amortization has been recognized on these assets.

During 2007, the companies consolidated by HFREC capitalized $20.6 million of lease intangibles related to their property acquisitions. As of December 31, 2008, lease intangibles are as follows:

Lease intangibles consist of the following at December 31, 2008:

(in thousands of dollars)

Leasing commissions	$	1,634
Value of in-place leases		8,495
Tenant relationships		10,426
Total lease intangibles		20,555
Less: Accumulated amortization		(6,130)
Lease intangibles, net	$	14,425

The amortization expense of lease intangibles is as follows for the five years ending December 31:

(in thousands of dollars)

2009	$	4,070
2010		2,535
2011		1,123
2012		1,121
2013		1,118

16. Consolidated Investment Fund Wind-Downs

Throughout 2008, Credit Strategies Master and Crusader Master were negatively affected by deteriorating conditions in the overall economy and credit markets. These conditions became more severe during the third and fourth quarters of 2008 and generated significant losses on various derivative transactions and repurchase agreements to which Credit Strategies Master and Crusader Master were a party. In addition, certain assets that Credit Strategies Master and Crusader Master purchased on margin through prime brokerage agreements experienced a significant decline in value. In certain cases, Credit Strategies Master and Crusader Master were unable to post the collateral required to secure these losses, and the counterparties provided notice of their intent to terminate the agreements. As a result, access to the credit that Credit Strategies Master and Crusader Master used to manage their investing and financing activities became highly constrained, and in some cases unavailable. In light of these circumstances, the General Partners (the general partner of Highland Credit Strategies Fund, L.P. and the general partner of Highland Crusader Fund, L.P.) and the Board of Directors of Highland Credit Strategies Fund, Ltd. and Highland Crusader Fund, Ltd. concluded, in consultation with the Investment Manager, that it would be in the best interests of their investors to wind down the investment portfolios of Credit Strategies Master and Crusader Master. On October 15, 2008, the Investment Manager notified investors that it would begin the wind-down process immediately. The Investment Manager also restricted subscriptions and the payment of withdrawals to the Feeder Funds effective immediately.

In connection with the wind down, the limited partner interests of the Feeder Funds were compulsorily withdrawn/redeemed as set forth in the terms of the governing documents. A formal plan of liquidation has not been finalized by management, and there are no assurances that investors will realize the remaining equity balance over the course of the wind down of Credit Strategies Master and Crusader Master. The General Partner has suspended payment of distributions, and any outstanding balances with respect to withdrawal and/or redemption requests that were made prior to October 15, 2008, will be made on a pro-rata basis with the amounts owed to investors that have been compulsorily withdrawn/redeemed, unless a plan of distribution dictates otherwise. The equity of the investors for Credit Strategies Master that were compulsorily redeemed was zero. The equity of the investors for Crusader Master that were compulsorily redeemed was $423.6 million. Future distributions will only be made as the value of Credit Strategies and Crusader Masters' investments are realized and all obligations due to counterparties and service providers of Credit Strategies and Crusader Master and their representative Feeder Funds have been satisfied.

As of December 31, 2008, the estimated value of the net assets available for distribution from Crusader Master and Credit Strategies Master to their Feeder Funds was approximately $1,092 million and $163.5 million, respectively. The actual amounts distributed upon completion of the wind down process are inherently uncertain and may differ materially from the partners' capital as of December 31, 2008. The Investment Manager estimates that the wind-down of Credit Strategies Master and Crusader Master could take up to four years to complete. Capital will be distributed as it becomes available in accordance with a plan of distribution, once implemented.

A summary of the significant events that were considered by the General Partners and the Board of Directors of Highland Credit Strategies Fund, Ltd. and Highland Crusader Fund, Ltd. in the decision to wind-down the investment portfolios of Credit Strategies Master and Crusader Master are provided below.

Credit Strategies Master Wind-Down

Total Return Swap

Since its inception, Credit Strategies Master was invested in a total return swap program that allowed it to gain exposure to bank loans and high yield corporate bonds. During September 2008, the leveraged loan market began to deteriorate, and Credit Strategies Master was required to post cash collateral based on the declining value of the loans held in the swap portfolio. As of September 30, 2008, Credit Strategies Master had met multiple collateral calls.

The fall in leveraged loan prices accelerated dramatically during the first week of October, which resulted in approximately $43.1 million of additional collateral calls. Credit Strategies Master did not have sufficient sources of liquidity to post all of the required collateral and could not sell assets at prices that reflected their long-term value. Therefore, the counterparty delivered notice of its intent to terminate the swap agreement effective October 15, 2008. The counterparty then offered to (1) sell the remaining assets in the swap portfolio, which would have required Credit Strategies Master to compensate the counterparty for any realized losses in excess of the $473.3 million of collateral that it had previously posted; or (2) allow Credit Strategies Master to forfeit any rights to the collateral in exchange for terminating all current and future exposures under the swap agreement. Credit Strategies Master elected to forfeit its rights to the collateral and executed a release and waiver with the counterparty. The release and waiver became effective on October 16, 2008.

Repurchase Agreement

Credit Strategies Master entered into a repurchase agreement with a counterparty, which allowed it to gain exposure to high yield corporate bonds and structured credit securities on a leveraged basis. In October 2008, the counterparty contended that Credit Strategies Master failed to meet margin calls that were required due to a decline in the fair value of the assets. The counterparty delivered a formal notice of default and their intent to exercise the rights and remedies available to it.

The repurchase agreement stipulated that the termination values for the underlying assets would be established through bids received from the market or recognized pricing sources. The counterparty contends that it offered the assets for sale through bids-wanted-in-competition. After netting the proceeds received from the sales, the counterparty requested payment from Credit Strategies Master of $14.3 million. Credit Strategies Master has disputed the liability, and the counterparty filed a lawsuit seeking recovery of the balance (Note 17).

Credit Default Swaps

Credit Strategies Master entered into various credit default swap transactions with a major financial institution for both hedging and speculative purposes. In October 2008, the counterparty provided a notice of termination due to a decline in the value of swaps. Credit Strategies Master disputed the notice on the basis that an event of default had not occurred; however, the counterparty proceeded to terminate the outstanding swap transactions, which resulted in realized losses of approximately $6.0 million. Credit Strategies Master has a net outstanding claim payable to the counterparty of $2.6 million.

Prime Brokerage Agreement
During the first two quarters of 2008, Credit Strategies Master actively purchased equity securities, treasury bonds, investment grade corporate bonds and other liquid assets on margin through a prime brokerage agreement with a major financial institution. The value of the investments declined during the third quarter, and in October 2008, the counterparty issued a notice of default based on a decline the net asset value of the account during the twelve month period ended September 30, 2008. As a result, Credit Strategies Master was required to liquidate the remaining investments in the account and by the end of the year had realized an aggregate net loss of approximately $68.2 million on the margin transactions.

Crusader Master Wind-Down
Lehman Exposure
Crusader Master provided protection under a credit default swap agreement that referenced debt issued by Lehman Brothers Holding, Inc. ("Lehman"). Following Lehman's bankruptcy filing on September 15, 2008, Crusader Master was required to post $39.1 million of cash to satisfy a margin call from the counterparty. In aggregate, Crusader Master realized net losses $54.6 million of losses under the agreement.

Repurchase Agreement
Crusader Master entered into a repurchase agreement with a counterparty, which allowed it to gain exposure to high yield corporate bonds and structured credit securities on a leveraged basis. In October 2008, the counterparty contended that Crusader Master failed to meet margin calls that were required due to a decline in the fair value of the assets. The counterparty delivered a formal notice of default and its intent to exercise the rights and remedies available to them.

The repurchase agreement stipulated that the termination values for the underlying assets would be established through bids received from the market or recognized pricing sources. The counterparty contends that it offered the assets for sale through bids-wanted-in-competition. After netting the proceeds received from the sales and certain balances to Crusader Master, the counterparty requested payment from Crusader Master of approximately $50.0 million. Crusader Master has disputed the amount of the liability, and the counterparty filed a lawsuit seeking recovery of the balance.

Prime Brokerage Agreement
During the first two quarters of 2008, Crusader Master actively purchased equity securities, treasury bonds, investment grade corporate bonds and other liquid assets on margin through a prime brokerage agreement with a major financial institution. The value of the investments declined during the third quarter, and in September 2008, the counterparty issued a notice of default based on Crusader Master's alleged failure to meet a margin call. Crusader Master was ultimately required to transfer or liquidate the remaining investments held in the account and by the end of the year had realized an aggregate net loss of approximately $21.6 million on the margin transactions.

17. Legal Proceedings

In April 2007, CDO Master Fund entered into a risk sharing agreement structured as a derivative whereby it absorbed 51% of the gains and losses generated from a loan warehouse agreement. The remaining 49% of the warehouse gains and losses were absorbed by Highland Financial Partners, L.P. ("HFP"), which is an affiliated entity. The warehouse was financed by a reputable financial institution and held collateral consisting of investments in collateralized loan obligations and credit default swaps. Although the agreement expired on August 15, 2007, the counterparty agreed to extend it for one year on March 15, 2008. As a condition of the extension, CDO Master Fund posted $10.2 million of cash as collateral. In addition, HFC posted certain securities on behalf of CDO Master Fund and HFP. During October and November 2008, the counterparty requested additional collateral calls from CDO Master Fund and HFP totaling $20 million. Due to liquidity constraints, CDO Master Fund was unable to meet the November call, and the counterparty elected to terminate the agreement as of December 5, 2008. The collateral held in the warehouse was subsequently seized by the counterparty and sold on the open market through bids-wanted-in-competition. After offsetting the proceeds received from the sale and the income earned on the collateral prior to the sale, the counterparty notified CDO Master Fund that its pro-rate share of the losses incurred under the agreement was $350.2 million. CDO Master Fund has accrued a liability in its financial statements for this amount.

On February 24, 2009, the counterparty filed a lawsuit against CDO Master Fund and HFP in the New York State Supreme Court of Manhattan alleging that it had suffered no less than $745 million in aggregate losses due to the depreciation in value of the warehouse collateral. The Partnership was also named as a party to the lawsuit. The Partnership does not believe it has any liability in this case and has filed a motion to have its name removed from the lawsuit.

Certain consolidated investment funds (collectively, the "Plaintiffs") filed a claim against Deutsche Bank AG and Deutsche Bank Securities, Inc. (collectively, "Deutsche Bank") in Dallas County District Court alleging fraudulent inducement, fraud and breach of contract in connection with three repurchase agreements to which the Plaintiffs and Deutsche Bank were a party. Deutsche Bank subsequently filed a lawsuit against the Plaintiffs in the United Kingdom on November 7, 2008 alleging breach of contract and fraud. The court in the United Kingdom has granted Deutsche Bank an injunction, which compels the Plaintiffs to stay the action in Dallas County Court until the action in the United Kingdom is resolved. The Plaintiffs have filed a motion to appeal the injunction and are waiting for the court to rule. Based on the demand for payment that Deutsche Bank sent prior to the onset of the litigation, the consolidated investment funds have accrued liabilities of $64.3 million in the accompanying consolidated financial statements.

18. Subsequent Events

In January 2009, the Partnership, certain consolidated investment funds and other affiliated entities were named as parties to a lawsuit claiming breach of fiduciary duties for their alleged failure to comply with obligations owed under a credit agreement. The plaintiff is seeking an unspecified amount of actual damages as well as exemplary damages and attorney's fees. Management believes it is currently not possible to evaluate the likelihood of any particular outcome or estimate the amount or range of potential loss with any reasonable degree of certainty.

On February 4, 2009, the Partnership informed investors of CDO Master that the fund was effectively insolvent and that it was in the best interest of the fund to liquidate the fund's remaining assets. The proceeds from the asset liquidations will be distributed to the remaining financing counterparties and other senior and trade creditors as the liabilities in the fund exceed the assets to such a degree that proceeds from the asset sales will not be able to satisfy any unpaid redemptions or to distribute amounts to any current investors.

On March 20, 2009, the Partnership and its Consolidated Investment Funds agreed to terminate the senior secured notes that were issued by HFP. As a result, the Consolidated Investment Funds have been relieved of their obligation to transfer the underlying assets to HFP. As of January 1, 2009, the fair value of the assets securitizing the note was $233.6 million.

In April 2009, a partner withdrew from the Partnership. The departing partner's Partnership interest is to be purchased by the Partnership or the remaining partners.

In April 2009, HYMF, Inc. filed a lawsuit in the New York State Court against the Partnership and certain consolidated investment funds (collectively "the Defendants"). The lawsuit alleges that the Defendants breached their contractual and fiduciary duties by failing to return HYMF's original investment in the consolidated investment funds. The Defendants believe they acted in accordance with the provisions of their partnership agreements and intend to vigorously defend against the lawsuit. At this time, discovery has not yet been initiated, and management believes it is currently not possible to evaluate the likelihood of any particular outcome or estimate the amount or range of potential loss with any reasonable degree of certainty.

In April 2009, the Partnership and certain consolidated investment funds (collectively "the Plaintiffs") filed a lawsuit in Texas District Court against HYMF, Inc. The lawsuit states that HYMF, Inc. failed to properly terminate the prepaid forward contract and accreting strike option. The Plaintiffs believe they acted in accordance with the provisions of the prepaid forward and accreting strike option contracts. At this time management believes it is currently not possible to evaluate the likelihood of any particular outcome or estimate the amount of range of potential loss with any reasonable degree of certainty.

In April 2009, Real Estate Fund received a forbearance agreement with respect to the REF credit agreement. The lender allowed for the forbearance of any prior obligations until October 15, 2009 where at such time, the facility is due in full.

During the first quarter of 2009, certain investors in Highland Credit Strategies Fund, Ltd. filed lawsuits in response to the decision to wind-down Credit Strategies Master's investment portfolio (Note 16). Each of these investors is seeking to recover the outstanding balances due under the redemption requests that they submitted prior to the announcement of the wind-down. They have also made various claims, including breach of fiduciary duties, committed negligence, tortuous interference with the payment of redemption amounts, and/or committed fraud. Both the Partnership and Highland Credit Strategies Fund, Ltd. have been named as parties to the lawsuits. Management believes it is currently not possible to evaluate the likelihood of any particular outcome or estimate the amount or range of potential loss with any reasonable degree of certainty.

In July 2009, the Partnership amended and restated its Credit Agreement (the "2009 Credit Agreement"). All amounts borrowed under the 2009 Credit Agreement are due on July 21, 2011. For base rate loans, interest is charged at a rate of 4% plus the highest of (i) the prime rate, (ii) 2% plus the Federal Funds Rate, and (iii) 2% plus LIBOR. For LIBOR loans, interest is charged at a rate of 5% plus LIBOR. For base rate loans, interest is payable on the last business day of each calendar month, as well as the maturity date. For LIBOR loans, interest is payable on the last day of each calendar month, as well as the maturity date.

In July 2009, certain investors in Highland Credit Strategies Fund, L.P. and Highland Credit Strategies Fund, Ltd. filed a lawsuit seeking damages for alleged recission, fraud, negligent misrepresentation, breach of fiduciary duty, unjust enrichment, various violations of Massachusetts general law, and aiding and abetting fiduciary duty. The Partnership, Highland Credit Strategies Fund, L.P., Highland Credit Strategies Fund, Ltd., employees of the Partnership, J.P. Morgan Investor Services Co., and J.P. Morgan Hedge Fund Services (Bermuda), Ltd. have been named as parties to the lawsuit. Management believes it is currently not possible to evaluate the likelihood of any particular outcome or estimate the amount or range of potential loss with any reasonable degree or certainty.

Supplemental Information
Highland Capital Management, L.P.
Unconsolidated Balance Sheet and Income Statement (Unaudited)
December 31, 2008

Highland Capital Management, L.P.
Supplemental Unconsolidated Balance Sheet (unaudited)
December 31, 2008

(in thousands of dollars)

Assets		
Current assets		
Cash and cash equivalents	$	10,725
Restricted cash		1,400
Investments, at fair value (cost $141,819)		75,821
Equity method investees		36,149
Management and incentive fees receivable		19,715
Due from brokers		8,189
Other current assets		29,076
Deferred incentive fees receivable		25,997
Purchased investment management contracts		24,000
Goodwill and other intangible assets, net		388
Fixed assets and leasehold improvements, net of accumulated depreciation of $6,399		9,511
Total assets	$	240,971
Liabilities and Partners' Capital		
Liabilities		
Accounts payable	$	12,992
Accrued and other liabilities		69,369
Debt and notes payable		150,875
Long-term incentive plan		6,945
Total liabilities		240,181
Partners' capital		790
Total liabilities and partners' capital	$	240,971

Should be read in conjunction with audited financial statements.

Highland Capital Management, L.P.
Unconsolidated Statement of Income (unaudited)
Year Ended December 31, 2008

(in thousands of dollars)

Revenue		
Management fees	$	201,660
Incentive fees/allocations		870
Interest and investment income		4,009
Other income		11,278
Total revenue		217,817
Operating expenses		
Compensation and benefits		(1,970)
Professional fees		24,717
Investment and research consulting		2,281
Amortization and depreciation		2,191
Interest expense		9,568
Net depreciation on deferred incentive fees		150,281
Other operating expenses		32,614
Total expenses		219,682
Income/(loss) before investment and derivative activities		(1,865)
Realized and unrealized gain/(loss) from investments and derivative transactions:		
Net realized gain/(loss) on sale of investment transactions		20,156
Net change in unrealized gain/(loss) on investments		(490,052)
Total realized and unrealized gain/(loss) from investments and derivative transactions		(469,896)
Realized and unrealized earnings from equity method investees:		
Net realized earnings from equity method investees		(128,462)
Net unrealized earnings from equity method investees		(7,038)
Total realized and unrealized earnings from equity method investees		(135,500)
Net income	$	(607,261)

Should be read in conjunction with audited financial statements.

EXHIBIT 64

Highland Capital Management, L.P.

(A Delaware Limited Partnership)

Consolidated Financial Statements
And Supplemental Information
With Report of Independent Auditors
Year Ended December 31, 2009

Highland Capital Management, L.P.
Contents
December 31, 2009

Report of Independent Auditors

To the General and Limited Partners of
Highland Capital Management, L.P:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of changes in partners' capital and of cash flows (hereinafter referred to as the "financial statements") present fairly, in all material respects, the consolidated financial position of Highland Capital Management, L.P. (the "Partnership") and its subsidiaries at December 31, 2009, and the consolidated results of their operations, the changes in their partners' capital, and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental unconsolidated balance sheet and statement of income are presented for purposes of additional information, and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

May 21, 2010

Highland Capital Management, L.P.
Consolidated Balance Sheet
December 31, 2009

(in thousands)

Assets		
Cash and cash equivalents	$	50,246
Restricted cash		248,044
Investments, at fair value (cost $3,953,077)		2,013,858
Restricted investments, at fair value (cost $5,245)		5,508
Unrealized gains on derivative contracts		1,045
Management and incentive fees receivable		16,783
Due from brokers		8,784
Other assets		45,712
Deferred incentive fees receivable		28,891
Purchased investment management contracts		24,000
Goodwill and other intangible assets, net		8,020
Fixed assets and leasehold improvements, net of accumulated depreciation of $9,536		14,891
Total assets	$	2,465,782
Liabilities and Partners' Capital		
Liabilities		
Accounts payable	$	4,451
Securities sold, not yet purchased (proceeds $15,093)		21,406
Unrealized losses on derivative contracts (proceeds $2,563)		103,650
Withdrawals payable		54,631
Interest payable		3,737
Due to brokers		394,359
Due to brokers for securities purchased not yet settled		115,890
Accrued and other liabilities		57,221
Secured borrowing		61,842
Debt and notes payable		279,509
Long-term incentive plan		2,858
Total liabilities		1,099,554
Non-controlling interest		1,358,360
Commitments (Note 10)		
Partners' capital		7,868

The accompanying notes are an integral part of these consolidated financial statements.

Highland Capital Management, L.P.
Consolidated Statement of Income
Year Ended December 31, 2009

(in thousands)

Revenue:		
Management fees	$	91,920
Incentive fees/allocations		1,550
Interest and investment income		168,134
Other income		17,610
Total revenue		279,214
Expenses:		
Compensation and benefits		52,163
Professional fees		36,942
Investment and research consulting		838
Amortization and depreciation		5,064
Interest expense		52,607
Other expenses		31,134
Total expenses		178,748
Income before investment and derivative activities		100,466
Realized and unrealized gain/(loss) from investment transactions:		
Net realized loss on sale of investment transactions		(1,001,610)
Net change in unrealized gain on investment transactions		1,214,188
Total realized gain from investment transactions		212,578
Unrealized earnings from equity method investees:		
Net unrealized earnings from equity method investees		2,377
Total unrealized earnings from equity method investees		2,377
Net income		315,421
Net income attributable to the non-controlling interest		(315,498)
Net loss attributable to Highland Capital Management, L.P.	$	(77)

The accompanying notes are an integral part of these consolidated financial statements.

Highland Capital Management, L.P.
Consolidated Statement of Changes in Partners' Capital
Year Ended December 31, 2009

(in thousands)	General Partner	Limited Partners	Total
Partners' capital, December 31, 2008	$ 467	$ 323	$ 790
Net loss	-	(78)	(78)
Partner contributions	68	12,509	12,577
Partner distributions	(29)	(5,392)	(5,421)
Partners' capital, December 31, 2009	$ 506	$ 7,362	$ 7,868

The accompanying notes are an integral part of these consolidated financial statements.

Highland Capital Management, L.P.
Consolidated Statement of Cash Flows
Year Ended December 31, 2009

(in thousands)

Cash flows from operating activities:		
Net income	$	315,420
Adjustment to reconcile net income to cash and cash equivalents provided by operating activities:		
Cash provided by operating activities:		
Net realized loss on investments and derivative contracts		1,001,610
Net unrealized loss on investments and derivative contracts		(1,214,188)
Net unrealized gain from equity method investees		(2,377)
Depreciation and amortization		2,728
Changes in assets and liabilities:		
Restricted cash		103,696
Management and incentive fee receivable		4,677
Deferred incentive fees		(2,894)
Other assets		27,507
Due from brokers		31,439
Accounts payable		(9,318)
Accrued and other liabilties		(154,724)
Due to brokers for unsettled trades		145,957
Interest payable		3,737
Withdrawals payable		54,631
Long-term incentive plan		(4,087)
Obligations to retun collateral		(161,882)
Net cash provided by operating activities		141,932
Cash flows from investing activities:		
Purchase of fixed assets and leasehold improvements, net		16,431
Purchases of investments		(397,439)
Proceeds from dispositions of investments		392,040
Net cash provided by investing activities		11,032

The accompanying notes are an integral part of these consolidated financial statements.

Highland Capital Management, L.P.
Consolidated Statement of Cash Flows
Year Ended December 31, 2009

(in thousands)

Cash flows from financing activities:		
Payments on long-term debt		(8,381)
Net payments on secured borrowings		(66,026)
Due to brokers		(73,451)
Capital contributions from minority interest investors of consolidated entities		62,342
Capital withdrawals by minority interest investors of consolidated entities		(72,300)
Partner distributions		(1,421)
Net cash used in financing activities		(146,660)
Net decrease in cash and cash equivalents		(4,728)
Cash and cash equivalents		
Beginning of year		43,942
End of year	$	39,214
Supplemental disclosure of cash flow informaton:		
Interest paid during the year	$	42,124
Non-cash distributions to partners		4,000

The accompanying notes are an integral part of these consolidated financial statements.

1. Description of Business

Highland Capital Management, L.P. (the "Partnership") was formed on July 7, 1997 as a limited partnership in the state of Delaware. The Partnership is a registered investment advisor under the Investment Advisors Act of 1940 that manages collateralized loan obligations ("CLOs"), registered investment companies ("RICs"), hedge funds, and other leveraged loan transactions that are collateralized predominately by senior secured bank debt and high-yield bonds. The Partnership and its subsidiaries make direct investments in debt, equity, and other securities in the normal course of business. The Partnership's general partner is Strand Advisors, Inc. (the "General Partner"). The Partnership is 100% owned by senior management of the Partnership.

As of December 31, 2009, the Partnership provided investment advisory services in accordance with management agreements for twenty-nine CLOs, nine RICs, four separate accounts, one master limited partnership, and twelve hedge fund structures, with total fee-earning assets under management of approximately $24.5 billion.

2. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies followed by the Partnership in preparation of its financial statements.

Basis of Accounting

The Partnership's consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") as set forth in the Financial Accounting Standards Board's Accounting Standards Codification.

Principles of Consolidation

The consolidated financial statements include the accounts of the Partnership and the Partnership's consolidated subsidiaries, which are comprised of (i) those entities in which it has controlling investment of 50% or more and has control over significant operating, financial and investing decisions of the entity, (ii) those entities in which it, as the general partner, has control over significant operating, financial and investing decisions of the entity, and (iii) variable interest entities ("VIEs") in which it is the primary beneficiary as described below.

The Partnership determines whether, if by design, an entity has equity investors who lack the characteristics of a controlling financial interest or does not have sufficient equity at risk to finance its expected activities without additional subordinated financial support from other parties. If an entity has either of these characteristics, it is considered a VIE and must be consolidated by its primary beneficiary, which is the party that, along with its affiliates and de facto agents, absorbs a majority of the VIEs expected losses or receives a majority of the expected residual returns as a result of holding variable interests.

Consolidation of Non-Variable Interest Entities
The Partnership consolidates the following non-VIE's (collectively referred to as the "Consolidated Investment Funds"). The Partnership (or its wholly owned subsidiaries) controls the general partner of the respective entities and is responsible for the daily operations:

- Highland Crusader Offshore Partners, L.P. ("Crusader Master"), a Bermuda exempted limited partnership that commenced operations on July 10, 2000;
- Highland CDO Opportunity Master Fund, L.P. ("CDO Master Fund"), a Bermuda limited partnership that commenced operations on November 9, 2005;
- Highland Credit Strategies Master Fund, L.P. ("Credit Strategies Master"), a Bermuda exempted limited partnership that commenced operations on August 24, 2005;
- Highland Credit Opportunities CDO, L.P. ("Credit Opportunities Master"), a Delaware limited partnership that commenced operations on December 29, 2005;
- Highland Multi-Strategy Master Fund, L.P. ("Multi-Strat Master"), a Bermuda limited partnership that commenced operations on July 18, 2006;
- Highland Multi-Strategy Fund, L.P. ("Multi-Strat Domestic Feeder"), a Delaware limited partnership that commenced operations on July 6, 2006;
- Canopy Timberlands, L.P., a Delaware limited partnership that commenced operations on April 29, 2008;
- Highland Restoration Capital Partners Offshore, L.P. ("Restoration Offshore") a Cayman limited partnership that commenced operations on September 2, 2008;
- Highland Restoration Capital Partners, L.P. ("Restoration Onshore") a Delaware limited partnership that commenced operations on September 2, 2008; and
- Highland Restoration Capital Partners Master, L.P. ("Restoration Master") a Delaware limited partnership that began commenced on September 2, 2008.

Consolidation of Variable Interest Entities
The Partnership consolidated the following VIE's as it is the primary beneficiary:

- Highland Financial Corporation ("HFC"), a company incorporated on February 28, 2006 under the laws of the state of Delaware;
- Highland Financial Real Estate Corporation ("HFREC"), a company incorporated on March 15, 2006 under the laws of the state of Maryland; and
- HCM Trident (Delaware) Corporation ("HCM Trident"), a company incorporated on July 3, 2007 under the laws of the state of Delaware.

Consolidation of Majority Owned Entities
The Partnership consolidates the following entities as it has a controlling majority interest:

- 100% interest in Highland Capital Management Europe, Ltd. ("Highland Europe"), a company organized in the United Kingdom and purchased by the Partnership on April 6, 2005;
- 100% interest in Highland Capital Special Allocation, LLC ("HCSA"), a Delaware limited liability company that commenced operations on December 21, 2006;
- 100% interest in HFP GP, LLC, a Delaware limited liability company that commenced operations on January 20, 2006;
- 100% interest in Highland Receivables Finance 1, LLC, a Delaware limited liability company that commenced operations on December 29, 2006;
- 100% interest in Highland Capital Management (Singapore) Pte, Ltd, a company organized in the Republic of Singapore that commenced operations on April 2, 2008;
- 100% interest in Highland Employee Retention Assets, LLC, a Delaware limited liability company that commenced operations on October 26, 2009;
- 86.5% interest in HySky Communications, LLC, a Delaware limited liability company that commenced operations on December 22, 2006; and
- 84.5% interest in HE Capital, LLC, a Delaware limited liability company that commenced operations on March 22, 2007.

Deconsolidation of Hedge Funds
The following funds have been deconsolidated for 2009 as the limited partners have been granted substantive participating rights:

- Highland Select Equity Fund, L.P., a Delaware limited partnership that commenced operations on January 1, 2002;
- Highland Equity Focus Fund, L.P., a Delaware limited partnership that commenced operations on September 1, 2002; and
- Highland Capital Real Estate Fund, L.P., a Delaware limited partnership that commenced operation on April 1, 2002.

All significant interpartnership and intercompany accounts and transactions have been eliminated in consolidation of all of the aforementioned consolidated entities. All the Consolidated Investment Funds are, for U.S. GAAP purposes, investment companies under the AICPA Audit and Accounting Guide - Investment Companies. The Partnership has retained the specialized accounting of these funds required under U.S. GAAP.

Investment Transactions
Investment transactions are recorded on a trade date basis. Realized gains and losses on the transactions are determined based on either the first-in, first-out or specific identification method.

Fair Value Measurement
Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants at the measurement date (exit price). Assets and liabilities measured at fair value are classified into one of the following categories:

- Level 1 – Valuation based on quoted prices in active markets for identical assets and liabilities that the Partnership and the Consolidated Investment Funds have the ability to access as of

the measurement date. Valuations utilizing Level 1 inputs do not require any degree of judgment.

- Level 2 – Valuations based on (a) quoted prices for similar instruments in active markets; (b) quoted prices for identical or similar instruments in markets that are not active; or (c) models in which all significant inputs are observable, either directly or indirectly.

- Level 3 – Valuations based on models in which the inputs are unobservable and significant to the fair value measurement, which includes situations where there is little, if any, market activity for the asset or liability.

The availability of observable inputs varies among financial instruments and is affected by numerous factors, including the type of instruments, the period of time in which the instrument has been established in the marketplace, market liquidity for an asset class and other characteristics particular to a transaction. When the inputs used in a valuation model are unobservable, management is required to exercise a greater degree of judgment to determine fair value than it would for observable inputs. For certain instruments, the inputs used to measure the fair value may fall into different levels of the hierarchy discussed above. In those cases, the instruments are categorized for disclosure purposes based on the lowest level of inputs that are significant to their fair value measurements.

The Partnership and Consolidated Investment Funds use prices and inputs that are current as of the measurement dates. The Partnership also considers the counterparty's non-performance risk when measuring the fair value of its investments.

During periods of market dislocation, the ability to observe prices and inputs for certain instruments may change. These circumstances may result in the instruments being re-classified to different levels within the hierarchy over time. They also create an inherent risk in the estimation of fair value that could cause actual amounts to differ from management's estimates.

Whenever possible, the Partnership and its Consolidated Investment Funds use actual market prices or relevant observable inputs to establish the fair value of its assets and liabilities. In cases where observable inputs are not available, the Partnership and Consolidated Investment Funds develop methodologies that provide appropriate fair value estimates. These methodologies are reviewed on a continuous basis to account for changing market conditions.

As of December 31, 2009, the Partnership and its consolidated entities investments consisted of floating rate syndicated bank loans, high yield corporate bonds, CLO securities, private placements, private placement real estate debt and equity, life settlement contracts and common and preferred equity securities. In addition, the consolidated entities are parties to various credit default swaps. The majority of these financial instruments are not listed on national securities exchanges, and management is required to use significant judgment to estimate their values.

The fair value of the loans, corporate bonds and CLO securities are generally based on quotes received from brokers or independent pricing services. Due to the recent disruption in the credit markets, an increasing number of these quotes are derived from implied values, bid/ask prices for trades that were never consummated, or a limited amount of actual trades. The policy of the Partnership and its consolidated subsidiaries is to classify loans and bonds that are prices in this manner as Level 3 assets because the markets in which they trade are not active and the inputs used by the brokers and pricing services are not readily observable. Loans and bonds with quotes that are based on actual trades with a sufficient level of activity on or near the valuation date are classified as Level 2 assets.

The consolidated entities private placement real estate investments include equity interests in limited liability companies and debt issued by entities that invest in commercial real estate. The fair value of these investments is based on internal models developed by the Partnership. The significant inputs to the models include cash flow projections for the underlying properties and appraisals performed by independent valuation firms. Since these inputs are no readily observable, the investments are classified as Level 3 assets.

Common and preferred equity securities traded on national exchanges are valued at their closing prices as of December 31, 2009. These securities are classified as Level 1 assets. The consolidated entities also hold certain equity securities for which no active market exists. The value of these securities, which are classified as Level 3 assets, is based on a combination of broker quotes and internal valuation models.

Life settlement contracts are valued using mortality tables and interest rate assumptions that are deemed appropriate for the demographic characteristics of the parties insured under the policies. Since these inputs are not readily observable, they are classified as Level 3 assets.

The fair value of credit default swaps is based on quotes received from an independent pricing service. The inputs used to derive the quotes are not readily observable and are therefore classified as Level 3.

Refer to Note 5 for the required fair value disclosures.

Management and Incentive Fee Revenue
The Partnership recognizes revenue as earned in connection with services provided under collateral and investment management agreements. Under these agreements, the Partnership earns management fees calculated as a percentage of assets under management or net asset value. The Partnership also has an opportunity to earn additional incentive fees and incentive allocations related to certain management agreements depending ultimately on the financial performance of the underlying assets the Partnership manages. During the year ended December 31, 2009, the Partnership and its consolidated entities recognized management and incentive fees of approximately $92 million, and $1.6 million, respectively. The Partnership recognized approximately $2.9 million of appreciation on incentive fees previously deferred under Sec. 409(A) of the Internal Revenue Code, which has been presented in *Other Income* in the consolidated statement of income.

Dividends, Interest and Expense Recognition
Dividend income and dividends on securities sold, not yet purchased are recorded on the ex-dividend date, net of withholding taxes. Operating expenses, including interest on securities sold short, not yet purchased are recorded on the accrual basis, if any incurred.

Income Taxes
The Partnership is not subject to federal income taxes, and therefore, no provision has been made for such taxes in the accompanying consolidated financial statements. Income taxes are the responsibility of the partners. Certain consolidated subsidiaries are subject to federal income taxes.

Certain entities that are included in these financial statements are subject to federal and/or state income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. The following subsidiaries are subject to these provisions: Highland Europe, HFC and HFREC.

The Consolidated Investments Funds are not subject to federal income taxes and therefore no provision has been made in the accompanying consolidated financial statements.

Cash and Cash Equivalents
Cash and cash equivalents consist of cash held at U.S. and foreign banks, deposits with original maturities of less than 90 days, and money market funds. Foreign cash of $4.1 million is included in the cash and cash equivalents on the consolidated balance sheet.

Restricted Cash
The Partnership and its subsidiaries are required to maintain cash balances as collateral for various financing and derivative transactions. These amounts are reported as restricted cash.

Fixed Assets and Leasehold Improvements
Fixed assets and leasehold improvements are carried at cost, less accumulated depreciation. Depreciation is provided using the straight-line method over the shorter of the estimated useful life of the assets or the lease term.

Total Return Swaps
A total return swap agreement is a two-party contract under which an agreement is made to exchange returns from predetermined investments or instruments. The gross returns to be exchanged or “swapped” between the parties are calculated based on a “notional amount,” which is valued monthly according to the valuation policy mentioned above to determine each party’s obligation under the contract.

Risks could arise from entering into swap agreements from the potential inability of counterparties to meet the terms of their contracts, and from the potential inability to enter into a closing contract. The Partnership’s Consolidated Investment Funds recognize all cash flows received (paid) or receivable (payable) from swap transactions on a net basis as realized or unrealized gains or losses in the consolidated statement of income. The Partnership and the Consolidated Investment Funds are charged a finance cost by counterparties with respect to each agreement. The finance cost is reported as part of the realized or unrealized gains or losses.

Credit Default Swaps
As discussed in Note 6, under a credit default swap agreement two parties agree to transfer the credit exposure of an asset between one another. The seller of the swap guarantees the credit worthiness of a specific instrument by agreeing to pay the buying party a specific amount (generally par value) in the event that the instrument defaults.

At December 31, 2009, the Partnership’s Consolidated Investment Funds were party to credit default swaps in which it acts as the guaranteeing party. In the event that any of the underlying instruments default prior to the expiration of the agreements, the Consolidated Investment Funds are obligated to pay the swap counterparty the par value of the specific instrument. The Consolidated Investment Funds collect a fee based on the size of the underlying positions which are treated as realized gains once received. The difference between the current market value of the swaps and the original price of the swap is reported as an unrealized gain or loss.

Securities Sold, Not Yet Purchased
The Partnership’s Consolidated Investment Funds engage in “short sales” as part of their investment strategies. Short selling is the practice of selling securities that are borrowed from a third party. The Consolidated Investment Funds are required to return securities equivalent to those borrowed for the short sale at the lender’s demand. Pending the return of such securities, the Consolidated Investment Funds deposit with the lender as collateral the proceeds of the short sale plus additional cash or securities. The amount of the required deposit, which earns interest, is

adjusted periodically to reflect any change in the market price of the securities that the Consolidated Investment Funds are required to return to the lender.

Securities Loaned
The Partnership's Consolidated Investment Funds may lend securities to their financing counterparties for margin. The lending entity receives the interest associated with the securities loaned. The loans are secured by the fair value of the securities. Gains or losses in the fair value of the securities loaned that occur during the term of the loan will be for the account of the lender. The lender has the right under the lending agreement to recover the securities from the prime brokers on demand. The lender pays a fee to the broker for the cash collateral received. This is accounted for as interest expense. A credit risk exists to the lender under this type of transaction to the extent that the counterparty defaults on its obligation to return the securities loaned.

Options
The Partnership's Consolidated Investment Funds purchase and sell call and put options on equity securities and equity indices as part of its overall portfolio management strategies. Purchased call or put options may be used to obtain economic exposure equivalent to a long or short position, respectively, or to hedge existing or anticipates portfolio positions. Certain options contracts are index options, under which amounts due or payable upon exercise are settled entirely in cash based on the difference between the value of the index at maturity and its contract (or strike) value. The potential risk of loss for purchased options is limited to the premium paid.

The premium paid for the purchase of an option is included in the consolidated balance sheet as an investment and subsequently marked-to-market to reflect the current value of the option. If an option expires on the stipulated expiration date, the Consolidated Investment Funds realize a loss equal to the cost of the option. If the Consolidated Investment Funds enter into a closing sale transaction, the Consolidated Investment Funds realize a gain or loss, depending on whether the proceeds from the closing sale transaction are greater or less than the cost of the option. If the Consolidated Investment Funds exercise a call option, the cost of the securities acquired upon exercise is increased by the premium paid to buy the call. If the Consolidated Investment Funds exercise a put option, it realizes a gain or loss from the sale of the underlying security and the proceeds from such sale are decreased by the premium originally paid.

Margin Transactions
In order to obtain more investable cash, the Partnership and its subsidiaries may use various forms of leverage including purchasing securities on margin. Such leverage may allow the Partnership and its subsidiaries to increase net assets at a greater rate during increasing markets, but also may lead to a more rapid decrease in net assets in a declining market. A margin transaction consists of purchasing an investment with money loaned by a broker and agreeing to repay the broker at a later date. Interest expense on the outstanding margin balance is based on market rates at the time of the borrowing.

Withdrawals Payable
Withdrawals are recognized as liabilities, net of incentive allocations, when the amount requested in the withdrawal notice becomes fixed and determinable. This generally may occur either at the time of receipt of the notice, or on the last day of a fiscal period, depending on the nature of the request. As a result, withdrawals paid after the end of the year, but based upon year-end capital balances are reflected as withdrawals payable at December 31, 2009. Withdrawal notices received for which the dollar amount is not fixed remains in capital until the amount is determined. Withdrawals payable may be treated as capital for purposes of allocations of gains/losses pursuant to the partnerships' governing documents. At December 31, 2009, the Consolidated Investment Funds had withdrawals payable of $36.2 million.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts and disclosures in the consolidated financial statements. Actual results could differ from those estimates.

Foreign Currency Transactions
The Partnership's subsidiary Highland Europe uses British Pounds as its functional currency and enters into transactions in multiple foreign currencies. All foreign currency asset and liability balances are presented in U.S. dollars in the consolidated financial statements, translated using the exchange rate as of December 31, 2009. Revenues and expenses are recorded in U.S. dollars using an average exchange rate for the relative period. Foreign currency transaction gains and losses resulting from transactions outside of the functional currency of an entity are included in *Other income* on the consolidated statement of income.

The Consolidated Investment Funds do not isolate that portion of the results of operations resulting from changes in foreign exchange rates or investment or fluctuations from changes in market prices of securities held. Such fluctuations are included within the *Net realized and unrealized gains or loss from investments*.

Financial Instruments
The Partnership and its consolidated entities determine fair value of financial instruments as required by U.S. GAAP. The carrying amounts for cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate their fair values because of their short maturities.

Life Settlement Contracts
One of the Partnership’s Consolidated Investment Funds invests in life settlement contracts (the “Policies”). The Policies are reflected as a component of “Investments, at fair value” in the Consolidated Statement of Assets, Liabilities and Partners’ capital. Realized and unrealized gains/(losses) on the Policies are reflected in the Consolidated Statement of Income. Cash flows used to purchase the Policies are reflected as a component of “Purchases of Investments” in the Consolidated Statement of Cash Flows.

The Consolidated Investment Funds were invested in 119 policies at December 31, 2009 with a total face value of approximately $1 billion.

Partners’ Capital
The Partnership agreement requires that income or loss of the Partnership be allocated to the partners in accordance with their respective partnership interests.

Goodwill and Other Intangible Assets
The Partnership purchased Highland Europe on April 6, 2005. Goodwill represents the amount paid in excess of the fair value of the assets of Highland Europe at the date of acquisition. No goodwill impairments existed as of December 31, 2009.

The Partnership has obtained the rights to the management contracts of certain RICs it manages by acquiring the underlying contracts from the predecessor investment manager. The Partnership performs an impairment test on the purchased investment contracts on an annual basis. Any depreciation in the value of the purchased investment management contracts are accounted for in the year when it occurs. The carrying values of the purchased investment contracts are not adjusted for appreciation. The goodwill and purchased investment management contracts are indefinite-lived assets and are not amortized.

Recently Issued Accounting Standards & Interpretations

In September 2009, the FASB issued ASU 2009-06, *Income Taxes (Topic 740)—Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities* (formerly proposed as FASB Staff Position No. 48-d, *Application Guidance for Pass-Through Entities and Tax-Exempt Not-for-Profit Entities and Disclosure Modifications for Nonpublic Entities*), which amended Accounting Standards Codification Subtopic 740-10, *Income Taxes – Overall*. ASU 2009-06 clarifies that an entity's assertion that it is a pass-through entity is a tax position and should be assessed in accordance with Subtopic 740-10. Additionally, the ASU provides implementation guidance on the attribution of income taxes to entities and owners. The revised guidance is effective for periods ending after September 15, 2009. The adoption of ASU 2009-06 did not have a material impact on the Partnership's financial position or results of operations at the date of adoption.

In June 2009, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162* (subsequently codified into FASB ASC Topic 105) which established the FASB Accounting Standards Codification ("ASC" or the "Codification") as the single source of authoritative accounting principles for U.S. GAAP issued by the FASB. The Codification supersedes all existing non-SEC accounting and reporting standards and subsequent to adoption, the FASB will issue new standards in the form of ASUs, and no longer as SFASs, FASB Staff Positions or Emerging Issues Task Force Abstracts. The Codification is effective for reporting periods ending on or after September 15, 2009. The adoption of the Codification did not have any impact on the Partnership's financial position or results of operations at the date of adoption.

In April 2009, the FASB issued guidance on determining fair value when the volume and level of activity for an asset or liability has significantly decreased and identifying transactions that are not orderly (originally issued as FASB Staff Position SFAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,* and subsequently codified within FASB ASC Topic 820). The guidance provides additional guidance to expand on the factors that should be considered in estimating fair value when there has been a significant decrease in market activity for an asset or liability. The guidance is effective for interim and annual periods ending after June 15, 2009. The adoption did not have any impact on the Partnership's financial position or results of operations at the date of adoption.

In December 2007, the FASB issued guidance on noncontrolling interests in consolidated financial statements (originally issued as SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51,* and subsequently codified within FASB ASC Topic 810). The guidance requires a company to clearly identify and present ownership interests in subsidiaries held by parties other than the company within the equity section of the consolidated financial statements. Additionally, Topic 810 requires: (i) the amount of consolidated net income (loss) attributable to the controlling and the noncontrolling interests to be clearly identified and presented on the face of the consolidated statements of operations; (ii) acquisitions of noncontrolling interest to be accounted for as equity transactions with no step-up to fair value; (iii) when a subsidiary is deconsolidated, any retained noncontrolling interest and the gain or loss upon deconsolidation to be measured at fair value; and (iv) losses to be allocated to noncontrolling interest regardless of whether cumulative losses have exceeded the noncontrolling interest in the subsidiary's capital. The guidance is effective for reporting periods beginning on or after December 15, 2008. The adoption of the revised guidance did not have any impact on the Partnership's financial position or results of operations at the date of adoption.

In June 2009, the FASB issued amended guidance on accounting for transfers of financial assets (originally issued as SFAS No. 166, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140,* and subsequently reissued as ASU 2009-16, *Accounting for Transfers of*

Financial Assets). The amendments were issued to improve the information that a reporting entity provides in its financial statements about a transfer of financial assets, the effects of a transfer on its financial statements, and a transferor's continuing involvement, if any, in transferred financial assets. The amendments eliminate the concept of qualifying special purpose entities from U.S. GAAP. These entities will now be evaluated for consolidation in accordance with the applicable consolidation criteria. The amendments are effective for reporting periods beginning on or after November 15, 2009. The adoption of ASU 2009-16 is not expected to have any impact on the Company's financial position or results of operations.

In June 2009, the FASB issued amended guidance on accounting for variable interest entities (originally issued as SFAS No. 167, *Amendments to FASB Interpretation No. 46(R),* and subsequently reissued as ASU 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*). The amendments were issued to address the effects of the removal of the concept of qualifying special purpose entities from U.S. GAAP and to address concerns regarding the consolidation of variable interest entities. ASU 2009-17 will require a qualitative approach rather than a quantitative approach when determining the primary beneficiary of a variable interest entity and will also change the criteria by which an enterprise determines whether it is the primary beneficiary of an entity. In addition, the amended interpretation will no longer consider removal rights when determining whether an entity is a variable interest entity and whether to consolidate a variable interest entity as the primary beneficiary unless those rights are held by a single party. ASU 2009-17 is effective for reporting periods beginning on or after November 15, 2009. The adoption of ASU 2009-17 is not expected to have any impact on the Partnership's financial position or results of operations, as substantially all of the entities in which it holds variable interests will qualify for the scope deferral included in ASU 2010-10, *Amendments to Statement 167 for Certain Investment Funds.*

In February 2010, the FASB issued ASU 2010-10, *Amendments to Statement 167 for Certain Investment Funds.* ASU 2010-10 defers the effective date of ASU 2009-17 for certain investment entities to allow the FASB to work with the International Accounting Standards Board ("IASB") in developing consistent consolidation guidance. The deferral will apply to a reporting entity's (i.e. investment manager's) interest in an entity (i) that has the attributes of an investment company or (ii) for which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with those followed by investment companies. The deferral in ASU 2010-10 would not apply in situations in which a reporting entity has the explicit or implicit obligation to fund actual losses of an entity that could potentially be significant to the entity. ASU 2010-10 is effective for annual reporting periods beginning on or after November 15, 2009, and for interim periods within that first annual reporting period. The adoption of ASU 2010-10 is not expected to have any impact on the Company's financial position or results of operations, as adoption of the deferral results in the Company continuing to apply consolidation and disclosure requirements in effect during prior periods.

In September 2009, the FASB issued Accounting Standards Update ("ASU") 2009-12, *Fair Value Measurements and Disclosures (Topic 820)—Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent)* which amended Accounting Standards Codification Subtopic 820-10, *Fair Value Measurements and Disclosures—Overall*. The amended guidance offers investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value per share (NAV). The ASU is effective for the first reporting period (including interim periods) ending after December 15, 2009. The Partnership has not yet determined the impact, if any, that the implementation of ASU 2009-12 would have on our consolidated results of operations or financial condition.

3. Fixed Assets and Leasehold Improvements

Fixed assets and leasehold improvements are comprised of the following as of December 31, 2009:

(in thousands)

Buildings	$	10,119
Leasehold improvements		4,060
Computer and equipment		3,448
Furniture and fixtures		3,185
Computer software		2,287
Land		1,328
Accumulated depreciation		(9,536)
	$	14,891

The Partnership and its consolidated entities are depreciating fixed assets as follows:

	Period
Buildings	29 - 40 years
Leasehold improvements	Lease term
Computer and equipment	5 years
Furniture and fixtures	7 years
Computer software	3 years

Depreciation expense in 2009 totaled approximately $4.8 million for the Partnership and its subsidiaries.

The Partnership and its consolidated entities had approximately $16.4 million of capital expenditures in 2009.

4. Investments

Detailed below is a summary of the Partnership and its subsidiaries' investments at December 31, 2009:

(in thousands)	**Amortized Cost/Cost**	**Fair Value**
Investments in floating rate syndicated bank loans	$ 937,360	$ 365,304
Investments in fixed rate syndicated bank loans	6,695	7,822
Investments in fixed income securites	948,995	528,096
Investments in equity securities	1,277,263	761,508
Investments in life settlement contracts	242,472	144,952
Investments in CLOs (mezz tranches)	83,369	37,254
Investments in CLOs (residual CLO equity tranches)	150,381	11,084
Investments in closed-end mutual funds	13,238	12,558
Investments in private placement real estate	132,373	22,372
Investments in limited partnerships	160,133	119,180
Investments in warrants	6,076	9,236
Total investments	$ 3,958,355	$ 2,019,366
Net unrealized gain/loss on credit default swaps	$ (2,563)	$ (102,605)

	Proceeds	**Fair Value**
Securities sold, not yet purchased	$ 15,093	$ 21,406

Affiliated Investments
Investments in Residual CLO Equity and Mezzanine Tranches
Investments in affiliated residual CLO equity tranches primarily represent tranches of CLOs for which the Partnership and Highland Europe provide investment advisory services. The Consolidated Investment Funds receive quarterly distributions based on the excess interest after paying the stated interest distributions to the senior and mezzanine note holders, and paying the investment manager, trustee and other related fees. A portion of these distributions are amortized against the cost basis of the investment based of the actual cash distributions received during the year versus the total expected remaining cash distributions to the residual CLO equity tranche. The remainder of the distribution is recorded as interest income.

Investments in residual equity and mezzanine tranches of CLOs are not actively traded. The estimated fair value of the CLOs is derived from broker quotes and valuation models. The estimated fair value of these investments as presented in the consolidated balance sheet does not necessarily represent the amount that could be obtained from the sale of these investments. Changes in the credit quality or the performance of the underlying collateral, the availability and price of assets available for reinvestment, interest rates and/or the interest rate curve, or other market conditions could have a material impact on the estimated fair value of the investments.

Investment in Highland Special Situations Fund
The Partnership invests in Highland Special Situations Fund ("HSSF"), a diversified, closed end RIC for which the Partnership provides investment advisory services. As of December 31, 2009, the market value of the Partnership's investment in HSSF was approximately $3 million. During the year ended December 31, 2009, the Partnership accrued approximately $0.2 million in dividends from HSSF.

Investment in Highland Long/Short Equity Fund
The Partnership invests in Highland Long/Short Equity Fund ("HEOF"), a diversified, open-end RIC for which the Partnership provides investment advisory services. As of December 31, 2009, the market value of the Partnership's investment in HEOF was approximately $0.2 million.

Investment in Highland Healthcare Fund
The Partnership invests in Highland Healthcare Fund ("HHF"), a non-diversified, open-end RIC for which the Partnership provides investment advisory services. As of December 31, 2009, the market value of the Partnership's investment in HHF was approximately $3.6 million.

Investment in Highland Credit Strategies Fund
The Partnership invests in Highland Credit Strategies Fund ("HCF"), a diversified, closed-end RIC for which the Partnership provides investment advisory services. As of December 31, 2009, the market value of the Partnership's investment in HCF was approximately $4 million. During the year ended December 31, 2009, the Partnership received approximately $0.1 million in dividends from HCF.

Prepaid Forward Contract
On July 28, 2006, Highland Multi-Strategy Onshore Master Subfund I, LLC ("Subfund") and Barclays Bank PLC ("Barclays") entered into a prepaid forward contract. The Partnership and affiliates redeemed approximately $312.7 million of a reference portfolio, which was comprised of the following basket of funds advised by the Partnership: Highland Crusader Offshore Fund II, Ltd., Credit Strategies Domestic Feeder, Highland CDO Opportunity Fund, Ltd., Real Estate Fund, Equity Focus Fund and Select Equity Fund. Barclays simultaneously contributed approximately $312.7 million as a hedge to its obligation under the prepaid forward contract.

Barclays was prepaid approximately $156.3 million, or one-half of the reference portfolio value at initiation of the transaction. A notional amount, (the initial reference portfolio value less the amount prepaid), accretes interest to Barclays at monthly LIBOR plus 0.90% per annum.

A collateral account in the amount of approximately $53.2 million was established to further secure the transaction. Due to extreme market volatility, all of the underlying holdings in the collateral account were sold during 2008.

The term of the prepaid forward contract was three years and allowed for net settlement upon termination. The contract expired on July 31, 2009 whereby Barclays was to remit in cash the greater of the difference between the reference portfolio value and the notional amount, as valued on the scheduled termination date, or zero. Upon expiration, Barclays was not obligated to make a cash payment to the Subfund.

On October 7, 2008, Barclays submitted a notice of early termination for the prepaid forward contract. Refer to Note 17 for further discussion.

Accreting Strike Option

On February 28, 2007, Highland Multi-Strategy Onshore Master Subfund II, LLC entered into an Accreting Strike Option ("ASO") with Barclays. The ASO's value is based on the following basket of funds ("the reference portfolio") advised by the Partnership: Highland Crusader Offshore Fund II, Ltd., Credit Strategies Domestic Feeder, Highland CDO Opportunity Fund, Ltd., Real Estate Fund, Equity Focus Fund, Select Equity Fund and Credit Opportunities Domestic Feeder. The value of the reference portfolio at inception was approximately $250.2 million

Barclays was paid a $71.4 million premium on the option. The strike price, (the initial reference portfolio value less the premium paid), accretes interest to Barclays at monthly LIBOR plus 1.4% per annum. As of December 31, 2009, the strike price was approximately $179.6 million.

The term of the accreting strike option is five years and allows for net settlement upon termination. At contract expiration, Barclays will remit in cash the greater of the difference between the reference portfolio value and the strike price, as valued on the scheduled termination date, or zero. As of December 31, 2009, the ASO did not have a positive net fair value.

Detailed below is a summary of the transaction as of December 31, 2009:

(in thousands)

Reference Portfolio		**Fair Value**
Select Equity Fund	$	110,491
Crusader Domestic Feeder		12,156
Equity Focus Fund		6,974
Credit Opportunities Domestic Feeder		3,238
Real Estate Fund		-
Highland CDO Opportunity Fund, Ltd.		-
Credit Strategies Domestic Feeder		-
Reference portfolio total		132,859
Notional amount		(179,563)
Fair value of accreting strike option		(46,704)

On October 13, 2008, Barclays served notice of early termination for the accreting strike option. Refer to Note 16 for further discussion.

Investment in Highland Employee Retention Assets LLC ("HERA")
During 2009, the Partnership established HERA, an employee deferred compensation vehicle. On October 26, 2009, approximately $12.1 million of assets were transferred to HERA. As of December 31, 2009, the Partnership's equity investment in HERA was approximately $11 million.

5. Fair Value of Financial Instruments

As discussed in Note 2, the Partnership and its consolidated entities categorize investments recorded at fair value in accordance with the hierarchy established under U.S. GAAP. A majority of the Consolidated Investment Fund's investments and derivatives at December 31, 2009 are classified as Level 3 positions due to the absence of active markets with quoted prices for identical or similar investments. The following table provides a summary of the financial instruments recorded at fair value on a recurring basis by level within the hierarchy as of December 31, 2009:

Highland Capital Management, L.P.
Notes to Consolidated Financial Statements
December 31, 2009

(in thousands)

	Level 1	Level 2	Level 3	Estimated Fair Value at 12/31/09
Loans	$ -	$ 16,048	$ 357,077	$ 373,125
Bonds & Asset Backed Securities	-	148,511	402,020	550,531
Collateralized loan obligations	-	-	16,001	16,001
Rights & Warrants	3,275	-	4,995	8,270
Private placement real estate	-	-	12,180	12,180
Limited partnership interest	11,552	-	129,372	140,924
Common equity securities	133,123	-	245,612	378,735
Mutual Funds	9,605	-	2,952	12,557
Privately held equity	-	-	246,090	246,090
Life Settlement Contracts	-	-	144,952	144,952
Preferred stock	-	-	136,000	136,000
Common stock sold short	(21,406)	-	-	(21,406)
Credit Default Swaps	-	-	(102,605)	(102,605)
Total	$ 136,149	$ 164,559	$ 1,594,646	$ 1,895,354

The following table provides a roll forward of the investments classified within Level 3 for the year ended December 31, 2009:

(in thousands)

	Estimated Fair Value as of December 31, 2008	Purchases, Sales and Maturities, Net Level 3	Net Transfers In/(Out) of Level 3	Net Realized Losses	Net Unrealized Gains / (Losses)	Total Fair Value at December 31, 2009
Loans	$ 337,962	$ 32,004	$ 22,878	$ (49,165)	$ 13,398	$ 357,077
Bonds & Asset Backed Securities	469,197	(122,399)	(6,469)	(241,960)	303,651	402,020
Collateralized loan obligations	123,730	(57,985)	-	(385,826)	336,082	16,001
Rights & Warrants	192	(871)	(140)	(5)	5,819	4,995
Private placement real estate	68,721	(12,461)	14,100	(9,337)	(48,843)	12,180
Limited partnership interest	137,544	(13,274)	120	6,002	(1,020)	129,372
Common equity securities	304,595	(10,149)	-	(14,434)	(34,400)	245,612
Mutual Funds	2,094	-	-	-	858	2,952
Privately held equity	109,543	(45,119)	-	(34,963)	216,629	246,090
Life Settlement Contracts	199,178	(6,123)	-	(7,595)	(40,508)	144,952
Preferred stock	175,778	3,085	-	-	(42,863)	136,000
	$ 1,928,534	$ (233,292)	$ 30,489	$ (737,283)	$ 708,803	$ 1,697,251

The following table provides a roll forward of the derivative contracts classified within Level 3 for the year ended December 31, 2009:

(in thousands)

Estimated Fair Value as of December 31, 2008	$	(194,761)
Settlement of open contracts, net		123,096
Net transfers in/(out) of Level 3		-
Net realized losses		(126,158)
Net change in unrealized gain		95,218
Estimated Fair Value as of December 31, 2009	$	(102,605)

6. Derivative Financial Instruments

Effective January 1, 2009, the Consolidated Investment Funds adopted the amended authoritative guidance on disclosures about derivative instruments. The new requirement amends and expands the disclosure requirement related to derivative instruments, to provide users of the financial instruments with an enhanced understanding of the use of derivative instruments by the Consolidated Investment Funds and how these derivatives affect the financial condition, financial performance, and cash flows of the Consolidated Investment Funds. This guidance requires qualitative disclosures about the objectives and strategies for using derivative instruments, quantitative disclosures about their fair value of, and gains and losses on, derivative instruments, as well as disclosures about credit-risk-related contingent features in derivative agreements.

Credit Default Swaps

The Consolidated Investment Funds enter into credit default swaps to simulate long and short bond positions that are either unavailable or considered to be less attractively priced in the bond market. The Consolidated Investment Funds use these swaps to manage risk where they have exposure to the issuer, or to take an active long or short position with respect to the likelihood of an event of default.

The buyer of a credit default swap is generally obligated to pay the seller a periodic stream of payments over the term of the contract in return for a contingent payment upon the occurrence of a credit event with respect to an underlying reference obligation. A credit event for corporate reference obligations includes bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring. If a credit event occurs, the seller must pay the contingent payment to the buyer, which is typically the par value (full notional value) of the reference obligation, though the actual payment may be mitigated by terms of the International Swaps and Derivative Agreement (“ISDA”), allowing for netting arrangements and collateral. In addition, the payment may be reduced by anticipated recovery rates, segregated collateral and netting arrangements that may incorporate multiple transactions with a given counterparty.

The seller of credit default swaps receives a fixed rate of income throughout the term of the contract, which typically is between one month and five years, provided that no credit event occurs. If a credit event occurs, the seller may be required to pay the buyer the full notional value of the reference obligation.

As of December 31, 2009, the Consolidated Investment Funds sellers of credit default swaps (“providing protection”) on a total notional amount of $248.6 million. The notional amount of the swaps is not recorded in the financial statements; however it approximates the maximum potential amount of future payments that the Consolidated Investment Funds could be required to make if they are the seller of protection and a credit event were to occur. The fair value of the swaps as of December 31, 2009 was approximately ($102.6 million), and the Consolidated Investment Funds have posted approximately $144.4 million of cash collateral with the counterparty to secure these unrealized losses.

The Consolidated Investment Funds reduced their overall exposure to credit default swaps by closing several positions, which generated approximately $78.7 million of net realized losses that are recorded in the Consolidated Statement of Operations as a component of net realized losses from investment transactions. The Consolidated Investment Fund's average exposure to credit default swap contracts for which it provided protection during the year ended December 31, 2009 was approximately $247 million.

The following table provides a summary of the Consolidated Investment Fund's maximum exposure by maturity credit rating under the swaps for which it sold protection. All of the contracts mature within the next five years.

(in thousands)

Current issuer credit rating*	
BBB	$ 29,500
B+	7,500
B	7,500
B-	20,250
CC	135,410
	$ 200,160

* The credit rating on the underlying bond provides an indicator of the risk that the Consoliated Investment Funds will have to perform under the swap arrangement. Lower credit ratings with a shorter contract term indicate a higher likelihood of performance by the Consolidated Investment Funds.

Total Return Swaps
A total return swap is a two-party contract under which the parties agree to exchange returns from a predetermined portfolio of investments. The gross returns to be exchanged or swapped between the parties are calculated based on a notional amount, which is valued monthly to determine each party's obligation under the contract. All of the Consolidated Investment Fund's total return swap programs were terminated in 2009. As of December 31, 2009, approximately $45.2 million was owed to various counterparties, on a net basis. Approximately $54.1 million of cash and securities have been posted to secure the balance payable. During the year, the Consolidated Investment Funds realized $96.4 million in realized losses related to the contracts closed out during the year.

7. Debt and Notes Payable

Consolidated debt and notes payable as of December 31, 2009 consists of:

(in thousands)	**December 31, 2009**
Partnership revolving credit facility	$ 143,435
Credit Opportunities Master note payable	128,603
HCREA Nolen Drive note payable	7,005
Partnership promissory note	466
	$ 279,509

Revolving Credit Facility
On July 21, 2009, the Partnership amended and restated its credit agreement with Bank of America as syndication agent and The Bank of Nova Scotia as administrative agent in the amount of $147.3 million (the "Credit Agreement"). The Credit Agreement provides for loans which are scheduled to mature on July 21, 2011.

Interest is payable on the last day of each month. The applicable spread for LIBOR loans under the Credit Agreement is LIBOR plus 5% per annum. For base rate loans, the spread is 4% per annum over the prevailing prime rate.

Under the terms of the Credit Agreement, the availability of credit was subject to financial covenants requiring the Partnership to maintain a minimum amount of fee earning assets under management, a minimum amount of management fees earned, a minimum collateral ratio and a maximum on compensation paid.

On September 15, 2009, the Credit Agreement was amended and restated to clarify some documentation items. On February 22, 2010, the Credit Agreement was amended a second time to clarify some of the reporting requirements.

The fair value of the facility as of December 31, 2009 was approximately $127 million.

Promissory Note
On January 4, 2006, the Partnership received a promissory note (the "Promissory Note") from Compass Bank in the amount of $2 million. The Partnership must make monthly payments of principal and accumulated interest on the fifth day of each month. The Promissory Note will mature on February 1, 2011. On February 8, 2007, the Partnership and Compass Bank modified the Promissory Note, which reduced the interest rate from 2.0% to 1.7% in excess of LIBOR. The outstanding balance of the Promissory Note as of December 31, 2009 was $0.5 million. As of December 31, 2009, the estimated fair market value of the note was approximately equal to the carrying value.

Credit Opportunities Master Note Payable
On December 19, 2008, Highland Credit Opportunities CDO Financing, LLC ("CDO Financing"), a wholly-owned subsidiary of Credit Opportunities Master, executed a Note Purchase Agreement (the "Purchase Agreement") with certain investors that provided for the issuance of up to $218 million of senior secured convertible notes guaranteed by Credit Opportunities Master. Pursuant to the terms of the Purchase Agreement and concurrent with the execution of the Purchase Agreement, CDO Financing issued $116.6 million of senior secured convertible notes for $115.6 million of cash and securities with a fair value of $0.9 million. The proceeds from the notes were used primarily to fund an additional equity investment in Highland Credit Opportunities, Ltd. (the "CDO"). This investment was required under the terms of a forbearance agreement that the Credit Opportunities Master executed with the Majority Controlling Class of the CDO's note holders.

The notes have a stated maturity date of December 31, 2012 and accrue interest on a quarterly basis at a rate of 25% per year. The terms of the Purchase Agreement allow for up to 75% of the accrued interest due at any payment date to be capitalized as additional principal owed to the holders of the notes. For the year ended December 31, 2009, approximately $12 million of interest payable was capitalized and issued to the note holders.

Subject to certain conditions, the Purchase Agreement allows for CDO Financing to issue up to $101.4 million of additional notes to the existing note holders. The Purchase Agreement requires payment of a fee of 2.5% per annum on the unfunded portion of the note commitment. For the year ended December 31, 2009, approximately $2.6 million of unfunded commitment fees is recorded in

interest expense in the Credit Opportunities Master's consolidated statement of operations. As of December 31, 2009, a liability of approximately $2.7 million is included in interest payable in Credit Opportunities Master's consolidated statement of assets, liabilities, and partners' capital.

Under the terms of the Purchase Agreement, the Credit Opportunities Master may not make any prepayments until July 1, 2010. From July 1, 2010 through December 31, 2010, the Credit Opportunities Master may elect to prepay 50% of the outstanding principal balance. After that period, Credit Opportunities Master may prepay all or a portion of the outstanding principal, provided that each partial payment made to the note holders is in an aggregate principal amount of at least $0.5 million.

The Purchase Agreement stipulates a premium due to the note holders upon full or partial payment of the outstanding principal of the notes. The premium due is determined by the date the principal is repaid and is calculated as a percentage of that principal balance, with a minimum of 5% due on the stated maturity date of the notes. The following table presents the premium rates by payment period:

Prepayment Period	Fees
July 1, 2010 - Dec. 31, 2010	15.0%
July 1, 2011 - Dec. 31, 2011	10.0%
July 1, 2012 - Dec. 31, 2012	6.0%
Dec. 31 2012	5.0%

Credit Opportunities Master is accruing the minimum premium due, 5% of the outstanding balance, over the contractual life of the notes using the effective-yield method. For the year ended December 31, 2009, approximately $0.9 million of this premium due is recorded as a component of interest expense in Credit Opportunities Master's consolidated statement of operations. As of December 31, 2009 a liability of approximately $0.9 million for the total premium recognized over the life of the notes is included in interest payable in Credit Opportunities Master's consolidated statement of assets, liabilities, and partners' capital.

At the note holders' option, up to 50% of the unpaid principal and accrued interest on the notes may be converted, in whole or in part, to limited partnership interests in the Feeder Fund or Credit Opportunities Master between January 1, 2010 and June 30, 2010. From July 1, 2010 through December 31, 2012, up to 100% of the unpaid principal and accrued interest on the notes may be converted, in whole or in part, to limited partnership interests in the Feeder Fund or Credit Opportunities Master.

The Purchase Agreement grants the note holders a lien on certain assets held by Credit Opportunities Master. In addition, it requires Credit Opportunities Master and the CDO to comply with various financial covenants. Failure to meet these covenants may result in an event of default and give the note holders the right to accelerate repayment of the debt or initiate a liquidation of certain assets. Credit Opportunities Master was in compliance with the covenants as of December 31, 2009 and for the year then ended. As of December 31, 2009, the estimated fair value of the notes was approximately $167.4 million, which is based on value of the risk-adjusted yield from the expected future cash flows of the notes relative to comparable investments. Actual values may vary significantly from the estimates, particularly since the terms of the Company's debt are complex, and the market for the instruments is illiquid.

HCREA Nolen Drive Note Payable
On September 18, 2006, Nolen Drive entered into a $7 million note payable with Artesia Mortgage Capital Corporation, which is secured by the underlying property in Nolen Drive (the "Term Loan"). The Term Loan matures with all principal and accrued interest due on October 11, 2011. The Term

Loan bears interest at a rate of 6.52% per annum. Payments are due on the 11th of every month. As of December 31, 2009, the estimated fair market value of the note was approximately $7.2 million.

8. Financial Instruments with Concentration of Credit and Other Risks

Financial Instruments

The Partnership and its consolidated entities' investments include, among other things, equity securities, debt securities (both investment and non-investment grade) and bank loans. The consolidated entities may also invest in derivative instruments, including total return and credit default swaps. Investments in these derivative instruments throughout the year subject the consolidated entities to off-balance sheet market risk, where changes in the market or fair value of the financial instruments underlying the derivative instruments may be in excess of the amounts recognized in the Statement of Assets, Liabilities and Partners' Capital.

Market Risk

Market risk represents the potential loss that may be incurred by the Master Partnership due to a change in the market value of its investments or the value of the investments underlying swap agreements. The Partnership and its Consolidated Investment Fund's exposure to market risk is affected by a number of factors, including the size, composition and diversification of its investments and swap agreements; interest rates; and market volatility. The Partnership and its Consolidated Investment Funds use various forms of leverage, including notes, which increase the effect of any investment value changes on net assets.

Credit Risk

Credit risk is the potential loss the Partnership and its consolidated entities may incur as a result of the failure of a counterparty or an issuer to make payments according to the terms of a contract. Because the consolidated entities enter into over-the-counter derivatives such as swaps, it is exposed to the credit risk of their counterparties. To limit the credit risk associated with such transactions, the consolidated entities execute transactions with financial institutions that the Investment Manager believes to be financially viable.

Liquidity Risk

The Consolidated Investment Fund's limited partner interests have not been registered under the Securities Act of 1933 or any other applicable securities law. There is no public market for the interests, and neither the Consolidated Investment Funds nor their manager expect such a market to develop.

Business Risk

The Partnership provides advisory services to the consolidated investment funds. The Consolidated Investment Funds could be materially affected by the actions and liquidity of the Partnership.

High Yield Bonds and Loans

The Partnership and its Consolidated Investment Funds may invest in high-yield bonds that have been assigned a lower rating category or are not rated by various credit rating agencies. Bonds in the lower rating categories are generally considered to be speculative with respect to the issuer's ability to repay principal and pay interest. They are also subject to greater risks than bonds with higher ratings in the case of deterioration of general economic conditions. Due to these risks, the yields and prices of lower-rated bonds are generally volatile, and the market for them is limited, which may affect the ability to liquidate them if needed. In addition, certain of the Consolidated Investment Funds' investments have resale or transfer restrictions that further reduce their liquidity. The Consolidated Investment Funds also invest in senior secured syndicated bank loans and enter into direct contractual relationships with the corporate borrowers. As such, the Partnership and its